Western Forest Products Inc.
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Western Forest Products Inc.

2022 Second Quarter Report

Management's Discussion & Analysis

The following Management's Discussion and Analysis ("MD&A") reports and comments on the financial condition and results of operations of Western Forest Products Inc. (the "Company", "Western", "us", "we", or "our"), on a consolidated basis, for the three and six months ended June 30, 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 and six months ended June 30, 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 and six months ended June 30, 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 Earnings Before Interest, Tax, Depreciation and Amortization ("Adjusted EBITDA"). Adjusted EBITDA is defined as operating income prior to operating restructuring expense 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 expense 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, marketing, production, wholesale, operational and capital allocation plans, investments and strategies, including but not limited to payment of a dividend or repurchase of shares; fibre availability and regulatory developments; changes to stumpage rates and the expected timing thereof; the pending determination by BC's Chief Forester on the AAC in TFL 19; the impact of COVID-19; the completion of the acquisition of certain assets of Calvert Company, Inc. and the expected timing thereof; the combined annual glulam capacity of the Calvert Company, Inc. manufacturing facilities; 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 August 3, 2022.

Summary of Selected Quarterly Results [(1)]

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

Summary Information		**Q2 2022**	**Q2 2021**	**Q1 2022**	**YTD 2022**	**YTD 2021**
Revenue						
Lumber		$ 351.8	$ 353.1	$ 313.9	$ 665.7	$ 629.7
Logs		70.8	46.3	32.7	103.5	79.4
By-products		14.8	15.0	13.0	27.8	27.8
Total revenue		437.4	414.4	359.6	797.0	736.9
Freight		31.1	26.8	26.0	57.1	49.6
Export tax expense		14.7	10.8	11.5	26.2	19.0
Stumpage		34.9	15.0	18.8	53.7	24.2
Adjusted EBITDA [(2)]		66.2	120.4	65.4	131.6	183.4
Adjusted EBITDA margin [(2)]		15%	29%	18%	17%	25%
Operating income prior to restructuring and other items		$ 53.4	$ 105.7	$ 52.2	$ 105.6	$ 154.5
Net income		38.6	78.3	38.0	76.6	132.1
Earnings per share						
Basic	$ per share	0.12	0.21	0.12	0.23	0.35
Diluted	$ per share	0.12	0.21	0.11	0.23	0.35
Operating Information[(3)]						
Lumber shipments [(4),(5)]	mmfbm	197	221	186	383	425
Cedar [(6)]	mmfbm	42	49	46	88	103
Japan Specialty	mmfbm	28	24	32	60	41
Niche	mmfbm	18	24	17	35	46
Commodity	mmfbm	110	124	91	200	235
Lumber production	mmfbm	173	207	175	348	406
Lumber price, average	$/mfbm	$ 1,786	$ 1,598	$ 1,688	$ 1,738	$ 1,482
Wholesale lumber shipments	mmfbm	12	12	15	27	22
Log shipments	000 m^3	391	351	167	558	636
Export	000 m^3	-	41	-	-	76
Domestic	000 m^3	312	205	132	443	364
Pulp	000 m^3	80	106	35	115	196
Log price, average [(7)]	$/$m^3$	$ 166	$ 127	$ 163	$ 165	$ 119
Net production [(8)]	000 m^3	904	1,012	748	1,651	1,700
Saw log purchases	000 m^3	328	227	290	618	422
Illustrative Lumber Average Price Data [(9)]	**Price Basis**					
Grn WRC #2 Clear & Btr 4x6W RL ($C)	cif dest N Euro	$10,183	$ 6,208	$ 9,150	$ 9,667	$ 5,896
Grn WRC Deck Knotty 2x6 RL S4S	Net fob Mill	$ 2,170	$ 2,775	$ 2,210	$ 2,190	$ 2,409
Grn WRC #2 & Btr AG 6x6 RL	Net fob Mill	$ 3,315	$ 2,953	$ 3,210	$ 3,263	$ 2,760
Coast Grn WRC Std&Btr NH 3/4x4 RL S1S2E	Net fob Mill	$ 2,432	$ 1,970	$ 2,381	$ 2,407	$ 1,786
Grn Hem Baby Squares Merch 4-1/8x4-1/8 13’	c&f dest Japan	$ 1,880	$ 1,685	$ 1,860	$ 1,870	$ 1,391
Grn Dfir Baby Squares Merch 4-1/8x4-1/8 RL S4S	c&f dest Japan	$ 1,971	$ 1,906	$ 1,940	$ 1,956	$ 1,561
Grn Dfir (Portland) #1&Btr 100% FOHC 6x6 Rough	Net fob Mill	$ 1,963	$ 1,706	$ 1,859	$ 1,911	$ 1,624
Hemlock Lumber 2x4 (40x90) Metric RG Utility	cif dest Shanghai	$ 539	$ 719	$ 554	$ 546	$ 662
Coast KD Hem-Fir #2 & Btr 2x4	Net fob Mill	$ 937	$ 1,412	$ 1,311	$ 1,124	$ 1,222
Average exchange rate – CAD to USD		0.783	0.814	0.789	0.786	0.802
Average exchange rate – CAD to JPY		101.54	89.10	91.73	96.45	86.27

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

Summary of Second Quarter 2022 Results

Adjusted EBITDA for the second quarter of 2022 was $66.2 million, as compared to $120.4 million in the same period last year. Results in the comparative period were driven by record North American lumber pricing and margins. Net income in the second quarter of 2022 was $38.6 million as compared to net income of $78.3 million in the same quarter of 2021.

We grew revenues in the second quarter of 2022 by leveraging record specialty product pricing. Adjusted EBITDA in the second quarter of 2022 was impacted by incremental costs including $19.9 million in additional stumpage expenses, $13.5 million in inventory and silviculture provisions, rising log purchase pricing, and higher operating costs. In addition, we incurred an incremental $4.3 million in freight expense and an incremental $3.9 million in export taxes despite lower lumber shipments. Second quarter operating income prior to restructuring and other items was $53.4 million in 2022, as compared to $105.7 million in the same period last year.

Sales

Revenue grew by 6% in the second quarter of 2022 as compared to the same period last year, as we increased log shipments to capitalize on record log pricing and maintained lumber revenue despite lower sales volumes.

We delivered a stronger specialty lumber mix, which more than offset logistics-constrained lumber shipments and declining commodity lumber pricing through the quarter.

Lumber shipments decreased by 11% as compared to the same period last year, despite increased shipments to Japan. Logistics constraints and weaker demand limited lumber shipments. Lower activity in the repair and renovation market reduced demand for certain Cedar and Niche products. Shipments of Japan specialty products increased by 17% as compared to the second quarter last year, as we took advantage of strong demand and pricing.

Our average realized lumber price was a record $1,786 per thousand board feet, an increase of 12% from the second quarter of 2021. Strong pricing across our specialty lumber products was offset by weaker pricing for commodity lumber, which had peaked in the comparative quarter of 2021. Lumber revenue also benefited from the 4% appreciation of the US to Canadian dollar exchange rate from the comparative period.

Log revenue was $70.8 million in the second quarter of 2022, a 53% increase from the comparative period last year. Recent strong lumber market conditions and limited British Columbia (“BC”) coastal log production combined to drive coastal log prices to record highs. We capitalized on market conditions by selling certain domestic log inventories which were in excess to our sawmill requirements, achieving a 31% average realized log price improvement and an 11% increase in sales volumes as compared to the second quarter last year.

By-product revenue was $14.8 million, comparable to the second quarter last year. Increased chip price realizations resulting from a higher Northern Bleached Softwood Kraft (“NBSK”) pulp price to China, were offset by reduced by-product shipments due to lower lumber production.

Lumber market weakness and significant declines in commodity lumber pricing in the second quarter of 2022 led to incremental inventory provisions of $10.5 million as compared to the same period last year. We recognized $11.5 million in inventory provisions in the second quarter of 2022, as compared to $1.0 million expense in the same period last year.

Operations

Lumber production was 16% lower in the second quarter of 2022 as compared the same period last year, due to log supply related operating curtailments at certain large-log sawmills and the mix of production. We modified certain production plans to reduce the impacts of logistics constraints which limited access to North American markets.

We harvested 904,000 cubic metres of logs from our coastal operations in BC, as compared to 1,012,000 cubic metres in the second quarter last year. Harvest results were impacted by late spring snow conditions that extended into the second quarter of 2022, and harvest permitting delays. The comparative period included an incremental 96,000 cubic metres of accelerated private timberlands log harvest associated with the sale of our former Orca Quarry assets.

Stumpage expense increased by $19.9 million as compared to the same period last year, despite reduced harvest volume. Recent record product pricing led to record coastal stumpage rates in the second quarter of 2022 on applicable BC crown land harvest.

Excluding stumpage, timberlands operating costs increased over the comparative period due to weather-related impacts early in the quarter, incremental road building, higher fuel costs and increased heli-logging. We increased road expenditures to address timber development deferred in past quarters due to weather. In addition, we recognized an incremental $3.0 million in silviculture expense from same period last year, which was primarily the result of inflation on our reforestation provision.

To support sawmill production, we increased our BC coastal saw log purchases by 45% as compared to the second quarter of last year. Average purchased log price increased 23%, consistent with the increase in our log sales pricing over the same period.

Second quarter freight expense increased by $4.3 million over the same period last year, despite a 11% decline in lumber shipments and the absence of log exports. Higher freight expenses were led by a 42% increase in container freight rates, increased use of breakbulk vessel shipments, and higher fuel costs. We continued to partly mitigate ongoing export logistics issues and limited container availability by converting a component of our lumber shipments to higher-cost breakbulk. Vessel and rail capacity improved towards the end of the quarter.

Adjusted EBITDA and operating income included $14.7 million of countervailing duty (“CV”) and anti-dumping duty (“AD”) expense in the second quarter of 2022, as compared to $10.8 million in the same period of 2021. The applicable export tax cash deposit rates increased from 8.99% to 17.91% over those periods. Higher export taxes were also influenced by the US to Canadian dollar exchange rate, offset by a 32% reduction in US-destined lumber shipments and lower lumber prices.

At June 30, 2022, we had $182.0 million of cash on deposit with the US Department of Treasury in respect of softwood lumber duties, of which $38.4 million was recognized as a long-term duty receivable.

Selling and Administration Expense

Second quarter selling and administration expense was $9.7 million in 2022 as compared to $16.7 million in the second quarter last year, attributable to lower incentive compensation expense resulting from reduced share price and earnings.

Other Income

We recognized other income of $0.2 million as compared to income of $1.4 million in the second quarter last year, resulting primarily from sales of equipment and other assets.

Finance Costs

Finance costs were $0.3 million as compared to $0.4 million in the second quarter last year. Interest expense was offset by slightly higher interest earned on our cash balances.

Income Taxes

Western recognized current income tax expense of $14.9 million partially offset by a deferred income tax recovery of $0.4 million in net income in the second quarter of 2022, a decrease of $13.4 million over the second quarter of 2021. Lower tax expense was the result of reduced operating income.

Net Income

Net income for the second quarter of 2022 was $38.6 million, as compared to net income of $78.3 million for the same period last year. Compressed margins on lower shipment volumes, higher stumpage expense, freight rates, export taxes, and the impact of inventory provisions reduced second quarter net income as compared to the same period of 2021.

Summary of Year to Date 2022 Results

Adjusted EBITDA for the first six months of 2022 was $131.6 million, as compared to $183.4 million for the same period last year. Net income was $76.6 million for the first six months of 2022, as compared to $132.1 million for the same period last year. Improved specialty product price realizations in the first half of 2022 have been more than offset by lower commodity lumber pricing, logistics constrained shipments, and cost pressures including an incremental $29.5 million stumpage expense, $7.5 million from freight rate increases, and $7.2 million for higher export taxes, as compared to the same period last year. Weaker lumber pricing at the end of the second quarter of 2022 led to increased inventory provisions of $12.7 million net as compared to the same period last year.

Operating income prior to restructuring and other items was $105.6 million, as compared to $154.5 million in the same period last year.

Sales

We grew lumber revenue to $665.7 million in the first half of 2022, 6% higher than last year, despite a 10% decline in lumber shipments. Revenue growth was led by our specialty products, the benefit of which was partly offset by global logistics constraints, limited production and sale of certain Niche products, and slowing demand for Cedar decking, trim and fencing products.

We leveraged our flexible operating platform to increase specialty products to 48% of shipments, from 45% in the first six months of last year, to capitalize on improved specialty product price realizations. Commodity lumber pricing declined year over year but remained above historic trend levels. Lumber revenue benefited from the 2% appreciation of the US to Canadian dollar exchange rate from the comparative period.

Log revenue was $103.5 million in the first half of 2022, an increase of 30% from the same period last year as the result significantly improved domestic log pricing on lower sales volumes. Strong lumber markets and limited BC log production have driven coastal log prices higher, resulting in a 39% increase in average realized BC log prices.

Timberlands permitting delays and weather-related curtailments in the latter half of 2021 and early 2022 continued to limit coastal log harvest, and as a result we continue to direct all export-grade logs to our sawmills in support of lumber production.

By-product and other revenue remained flat in the first half of 2022 versus the first half of 2021. Higher price realizations were offset by reduced shipments due to lower lumber production compared to the same period last year.

Declining commodity lumber prices in the second quarter of 2022 was the primary driver for net incremental inventory provisions of $12.7 million over the first half of 2022 as compared to the same period last year.

Operations

Lumber production in the first half of 2022 was 348 million board feet, 14% lower than the same period last year due to log supply related operating curtailments at certain sawmills and the mix of production.

Log production for the first half of 2022 was 1,651,000 cubic metres, a decrease of 3% from the same period last year. Logging operations in the first half of 2022 were partly impacted by late snow and permitting approval delays. The comparative period included an incremental 134,000 cubic metres of log harvest from private timberlands associated with the sale of the Orca Quarry assets.

Stumpage rates have increased by 110% as compared to the same period last year, with an incremental $29.5 million in stumpage expensed in the first six months of 2022. Third quarter stumpage is expected to increase further before stumpage rates moderate as the result of the decline in most lumber product prices.

Timberlands operating costs were higher in the first half of 2022 versus the same period last year due to cost impacts of an extended snowpack in 2022, more road building activity, higher contractor and fuel costs, and increased heli-logging. Road building costs increased as we replenished developed timber inventories depleted from weather-related deferrals in prior periods and implemented alternative harvest plans to mitigate certain harvest permitting delays. We have experienced delays in obtaining certain timberlands harvest permits owing in part to First Nation capacity constraints. In addition, silviculture expense increased by $3.9 million over the prior period on lower harvest volume, primarily due to higher silviculture costs.

We increased our BC coastal saw log purchases by 46% to 618,000 cubic metres, as compared to the same period last year to maximize fibre available for sawmill operations. The mix of purchases and higher log pricing drove a 23% increase in average log purchase price as compared to the same period last year.

Freight expense for the first half of 2022 was $57.1 million, an increase of 15% as compared to same period last year despite a 10% decline in lumber shipments and the absence of log exports. Freight expense increased due to a 46% increase in realized container freight rates over the same period last year, the increased use of higher cost breakbulk shipments intended to partly mitigate limited container availability, and higher fuel costs.

Adjusted EBITDA and operating income in the first six months of 2022 included $26.2 million of CV and AD expense, as compared to $19.0 million in the same period of 2021. Export tax expense rose due to increases in the cash deposit rates from 8.99% to 17.91%, higher lumber prices and a 2% appreciation of the US to Canadian dollar exchange rate, partly mitigated by a 31% reduction in US-destined lumber shipment volumes compared to the first half of 2021.

Selling and Administration Expense

Selling and administration expense for the first half of 2022 was $22.9 million as compared to $31.0 million in the same period last year. Share price declines in the first half of 2022 resulted in a net recovery of $7.7 million compared to the same period last year, in which the share price had increased by 65%.

Other Income

We recognized other income of $0.1 million in the first half of 2022, as compared to $18.1 million in the same period of 2021 attributable primarily to gains from non-core asset sales, including the Orca Quarry assets.

Finance Costs

Finance costs were $0.7 million, compared to $1.3 million in the first half of 2021, due to a reduction in our average outstanding debt balance and interest earned on our cash balance.

Income Taxes

Western's current income tax expense in the first half of 2022 was $30.3 million, partly offset by a recovery on deferred income taxes of $2.7 million. Tax expense decreased by $10.6 million over the same period last year resulting primarily from the decrease in operating income. The first half of 2021 also benefitted from utilization of capital losses carried forward to offset other income earned on the sale of assets.

Net Income

Net income for the first half of 2022 was $76.6 million, as compared to a net income of $132.1 million for the same period last year. Lower net income was due to reduced margins on lower shipment volumes, significant inventory provisions, and higher stumpage, export tax and freight rates as compared to the same period of 2021.

President and Chief Executive Officer ("CEO") Appointment

On July 28, 2022, Western announced the appointment of Steven Hofer as its President and CEO and member of the Company's Board of Directors, effective September 7, 2022. Mr Hofer succeeds Don Demens, who will remain at Western in an advisory capacity until March 31, 2023 to ensure a seamless transition. Mr Demens will also step down from the Board effective September 7, 2022.

Business Acquisition

On July 19, 2022, we announced an agreement to acquire certain assets of Calvert Company, Inc. ("Calvert") located in Washington State for US$12.0 million, including inventory of US$2.5 million, subject to a customary post-closing inventory adjustment.

Calvert is one of the most experienced glulam manufacturers in the US, with a history of more than 60 years in producing high quality glulam beams for industrial, commercial, and residential projects around the world. Calvert has manufacturing facilities in Washougal, Washington and Vancouver, Washington with a combined annual glulam capacity of approximately 35 million board feet on a two-shift basis.

The Calvert acquisition will help position Western to capitalize on the growing North American Mass Timber building market and is consistent with our strategy of moving up the product value chain and growing our portfolio of value-added products.

Mass Timber construction, which utilizes products such as glulam and cross laminated timber, represents a significant growth opportunity in North America. There are currently over 1,300 Mass Timber projects constructed, in progress or in the design phase in North America and third-party research estimates that there will be 4.4 billion board feet of lumber demand from Mass Timber construction by 2035. In addition, Mass Timber is a natural, renewable, and sustainable building material, with a lighter carbon footprint than other conventional construction materials.

The transaction will be financed with cash on hand and is expected to close in the third quarter of 2022, subject to satisfaction of customary closing conditions. As part of the transaction, we have created an engineered wood subsidiary focused on further growth opportunities through the Mass Timber value chain.

Capital Investments

On July 6, 2022, Western confirmed strategic capital investments of approximately $29 million in our BC operations. These planned investments are part of our ongoing commitment to support value-added manufacturing in BC, growing our value-added wood products business, and continuing to improve Western's long-term competitiveness. Each of these capital investments are expected to deliver reductions in operating costs, and collectively they represent an increase of $13 million from the $16 million discussed in the Company's first quarter 2022 Management's Discussion and Analysis.

Specifically, the investments include:

- $12.3 million in a new continuous kiln at the Saltair sawmill in Ladysmith, BC, allowing for increased capacity for continuous drying of lumber, while reducing energy consumption. This investment follows the multi-phase strategic capital investment of over $42 million undertaken to modernize the sawmill since 2013. Saltair sawmill is now the largest single-line sawmill on the coast of BC, and has three existing kilns on site for drying lumber.
- $7.9 million at the Duke Point facility in Nanaimo, BC, to optimize the centralized planer facility with new equipment, including a machine stress rated ("MSR") lumber grading machine. The MSR machine provides strict lumber grade quality control with known values for strength and stiffness for lumber utilized in engineered products, including roof trusses, glulam and mass timber. The Duke Point sawmill and planer have undergone a previous multi-phase strategic capital investment of over $45 million since 2015 to modernize the facility.
- $8.3 million in other capital investments in our BC operations, including new kiln control systems at the Saltair sawmill and our Value-Added Division in Chemainus, BC to increase the supply of kiln dried finished products for our customers.

Each of these investments will serve to generate additional value from Western's wood products and are expected to be completed by 2023.

These operational upgrades are an extension of our significant investment in value-added manufacturing on the coast of BC. Since 2013, Western has invested over $450 million in our BC operating platform.

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.

Quatsino First Nation Bridging Agreement and Integrated Resource Management Plan

On July 7, 2022 Western and Quatsino First Nation ("Quatsino") entered a three-year Bridging Agreement that provides for joint forest operations in Quatsino traditional territory and allows for ongoing collaboration in territorial planning through an Integrated Resource Management Plan guided by Quatsino's Land Use Plan and values.

Over the three-year term of the Bridging Agreement, Quatsino will contribute timber from Quatsino managed tenures, and Western will contribute volume from TFL 6. These contributions will increase the scope of operations for the Quatern Limited Partnership over the term of the agreement.

The agreement allows for a period of increased stability for forestry workers and North Island communities, as a longer-term reconciliation arrangement is pursued.

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.

Huumiis 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.

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 Territory Forest Resource Plan for Tla'amin treaty lands and Crown tenure areas, and the portion of Western's TFL 39 Block 1 located in Tla'amin territory.

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 IRMP for managing forests in Tree Farm Licence ("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.

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 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 exiting 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 Nanwakolas 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 Nanwakolas Council and Western. These temporary deferral areas represent approximately 1% of the total area of TFL 39 Block 2.

On February 23, 2022, ‘Namgis announced its decision to waive the TAP proposed, temporary deferral area in 'Namgis 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, ‘Namgis 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. For additional details on these old growth logging deferrals and First Nations governments approach to such deferrals, please see the *“Old Growth Logging Deferrals”* heading in our Management’s Discussion and Analysis for the year ended December 31, 2021.

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.

Fibre Recovery Zones

On April 1, 2019, the Province announced the creation of fibre recovery zones as part of the Province’s Coast Forest Sector Revitalization Initiative. Fibre recovery zones were intended to increase the supply of residual fibre from primary harvesting for secondary users.

This initiative prescribes that primary harvesters conducting operations within a fibre recovery zone will pay a multiple of the stumpage-based waste rate for applicable volumes of avoidable waste left on the harvest block, with exemptions for Cedar species and heli-logging. Effective August 1, 2022, the waste rate multiple increases from 1 to 3, with application to harvest blocks in which new harvest commences after the effective date. Certain allowances apply to reduce the effective impact to net stumpage expenses, and we continue to evaluate the potential impact to our business.

We continue to engage with the Province and the primary coastal pulp producer to ensure that the desired outcome of the policy, less fibre waste and more fibre for domestic manufacturing and pulp production, is met without the unintended consequences of higher costs and less harvest volume for timberland operators.

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 replaceable in nature, under the *Forest* Act requiring that the Province offer a new 25-year term replacement TFL every five to ten years.

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	Q2 2022	Q2 2021	Q1 2022	YTD 2022	YTD 2021
Operating activities					
Net income	$ 38.6	$ 78.3	$ 38.0	$ 76.6	$ 132.1
Amortization	12.8	13.3	12.7	25.5	26.2
Loss (gain) on disposal of property, plant, equipment and other assets	0.1	(1.9)	(1.4)	(1.3)	(19.3)
Income tax expense	14.5	27.9	13.1	27.6	38.2
Income tax payments	(29.6)	(0.2)	(58.4)	(88.0)	(0.2)
Share-based compensation expense (recovery)	(2.4)	4.1	1.0	(1.4)	8.6
Other	(3.0)	4.9	3.1	0.1	7.9
	31.0	126.4	8.1	39.1	193.5
Change in non-cash working capital	(9.0)	(13.1)	(43.9)	(52.9)	(34.5)
Cash provided by (used in) operating activities	22.0	113.3	(35.8)	(13.8)	159.0
Investing activities					
Additions to property, plant and equipment	(5.1)	(4.1)	(4.8)	(9.9)	(5.9)
Additions to capital logging roads	(1.8)	(3.2)	(1.2)	(3.0)	(5.7)
Proceeds on disposal of property, equipment and other	0.2	6.9	1.7	1.9	44.6
Proceeds from sale of a non-controlling interest	-	19.8	-	-	19.8
Deposits	-	-	(2.0)	(2.0)	-
Cash provided by (used in) investing activities	(6.7)	19.4	(6.3)	(13.0)	52.8
Financing activities					
Repayment of credit facility	-	(0.5)	-	-	(70.2)
Dividends	(4.0)	(3.6)	(3.3)	(7.3)	(7.4)
Share repurchases	-	(29.9)	(7.3)	(7.3)	(32.2)
Lease payments	(2.0)	(1.9)	(1.8)	(3.8)	(3.8)
Other	0.1	(0.3)	(0.6)	(0.5)	(1.5)
Cash used in financing activities	(5.9)	(36.2)	(13.0)	(18.9)	(115.1)
Increase (decrease) in cash	$ 9.4	$ 96.5	$ (55.1)	$ (45.7)	$ 96.7
Summary of Financial Position					
Cash and cash equivalents	$ 84.3	$ 99.6	$ 74.9		
Current assets	442.9	390.0	408.0		
Current liabilities	161.9	172.7	162.9		
Total debt	-	1.9	-		
Net debt (cash) [2]	(84.3)	(97.7)	(74.9)		
Equity, excluding non-controlling interest	677.4	611.5	640.9		
Total liquidity [3][6]	319.1	341.1	310.1		
Financial ratios					
Current assets to current liabilities [4]	2.74	2.26	2.50		
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 generated by operating activities before changes in non-cash working capital was $31.0 million in the second quarter of 2022, a reduction of $95.4 million as compared to the comparative period last year due to lower operating margin and significant tax payments. The second quarter of 2022 included tax payments of $29.6 million in respect of 2021 logging taxes and 2022 income tax instalments, and tax payments in the first half increased by $87.8 million over the first half of 2021.

Cash used in investing activities was $6.7 million during the second quarter of 2022, as compared to cash generated of $19.4 million during the same period last year. The second quarter of 2021 included proceeds of $19.8 million on the disposition of 28% of our interest in Tsawak-qin Forestry Limited Partnership and $6.9 million on disposal of non-core assets, including Orca Quarry assets, as compared to $0.2 million in the second quarter of 2022.

Cash used in financing activities was $5.9 million in the second quarter of 2022, versus $36.2 million in the same period of 2021. We returned $4.0 million to shareholders via our quarterly dividend, which increased 25% to $0.0125 per common share in the second quarter of 2022, as compared to $33.5 million returned to shareholders via our dividend and share repurchases under our NCIB in the second quarter of 2021. Western reached the maximum repurchases allowable under the current NCIB on January 24, 2022.

Liquidity and Capital Resources

Total liquidity was $319.1 million at June 30, 2022, as compared to $371.4 million at December 31, 2021 and $341.1 million at June 30, 2021. Liquidity is comprised of cash and cash equivalents of $84.3 million and unused availability under the credit facility of $234.8 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 June 30, 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 strategic 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 $29 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

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.

On May 4, 2022, we increased our quarterly dividend from $0.01 per common share to $0.0125 per common share. Dividends of $4.0 million and $7.3 million were paid in the three and six months ending June 30, 2022, respectively.

Normal Course Issuer Bid ("NCIB")

On August 3, 2022, the Company renewed its NCIB permitting the purchase and cancellation of up to 27,420,905 common shares, representing 10% of the public float outstanding as of August 3, 2022. The renewed NCIB will commence on August 11, 2022 and end no later than August 10, 2023. The Company also entered into an automatic share purchase plan with a designated broker to facilitate purchases of its common shares under the renewed NCIB at times when the Company would ordinarily not be permitted to purchase its common shares due to regulatory restrictions or self-imposed blackout periods.

Western purchased and cancelled the maximum 29,726,940 common shares permitted under its former NCIB, that was effective August 11, 2021, for $60.7 million at an average price of $2.04 per common share. The company fully completed the former NCIB, resulting in a 10% reduction to the public float of common shares outstanding at August 5, 2021.

During the first six months ended June 30, 2022, we repurchased and cancelled 3,379,027 common shares for $7.3 million at an average price of $2.17 per common share.

Strategy and Outlook

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

Lumber markets are being impacted by uncertainty caused by rising interest rates and the risk of a recession. We expect North American commodity lumber pricing to remain muted until economic conditions stabilize and borrowing rates moderate. Supply reductions in the BC Interior, and lean inventory in the logistics-constrained supply chain are expected to limit significant downside pricing risks.

We believe that strong North American housing market fundamentals will support lumber demand and pricing, above trend levels in the mid-term. 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 demand for lumber.

In the near-term, pricing for our Cedar timbers and appearance products is expected to remain strong, while demand for our Cedar decking, trim and fencing products remains muted. We are reducing production volumes for these products to manage market inventories.

Demand and pricing for industrial products in the Niche segment remain strong, this includes timbers for the oil and gas sector, and cross arms for the utilities market.

Our Japan specialty products have performed exceptionally well over the last year. A weaker yen may challenge price realizations, and in-market inventory levels are likely to limit sales volumes in the near-term.

We expect sawlog markets to remain strong due to a combination of reduced supply and strong demand. We expect pulp log pricing to continue 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.

Rising inflation has begun to impact our business, and we anticipate that cost pressures and market volatility may continue until inflation returns to a more normalized range. To date we have been able to partly mitigate these cost impacts through higher pricing for our products, cost mitigation strategies and certain capital projects. We will continue to evaluate the market supply demand dynamics and seek to manage the impact of high inflation on our business and market supply and demand.

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 $26.2 million of export duties at a combined duty rate of 17.91% on its lumber shipments into the US in the first half of 2022, as compared to $19.0 million at a duty rate of 8.99% in the same period last year. The effect of higher duty rates, significantly improved lumber pricing and 2% appreciation of the US to Canadian dollar exchange rate more than offset a 31% decline in the Company's US-destined lumber shipment volumes over those periods.

As the Department of Commerce ("DoC") completes its administrative review ("AR") of a shipment year, final rates are published in the federal register and a revised cash deposit rate is established until publication of final rates of the next AR. Finalization of CV and AD rates and other DoC corrections for Canadian lumber shipments to the US in 2017 through 2019 resulted in an overpayment of export taxes of $38.4 million (US$29.6 million), which Western recorded as an export tax recovery in prior years together with a long-term duty receivable on which it accrues interest.

On January 31, 2022, the DoC released its preliminary determination for CV and AD rates resulting from its third AR of CV and AD rates for shipments in 2020, indicating a combined rate of 11.64%. The DoC may revise these rates between the preliminary and the final determination, expected to be released shortly after August 3, 2022. Cash deposits continue at the combined duty rate of 17.91%, established in the AR for 2019 lumber shipments, until the final determinations for 2020 are published, after which the new rates will apply.

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

At June 30, 2022, Western had $182.0 million (US$141.4 million) of cash on deposit with the US Department of Treasury in respect of these softwood lumber duties, of which $38.4 million (US$29.6 million) 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 41% of our total lumber revenue in the second quarter of 2022, as compared to 45% 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	Q2 2022	Q2 2021	Q1 2022	YTD 2022	YTD 2021
Net income	$ 38.6	$ 78.3	$ 38.0	$ 76.6	$ 132.1
Add:					
Amortization	12.8	13.3	12.7	25.5	26.2
Changes in fair value of biological assets	-	1.5	0.5	0.5	2.7
Operating restructuring expense	0.2	0.5	0.6	0.8	1.0
Other (income) expense (1)	(0.2)	(1.4)	0.1	(0.1)	(18.1)
Finance costs	0.3	0.4	0.4	0.7	1.3
Current income tax	14.9	31.2	15.4	30.3	40.0
Deferred income tax recovery	(0.4)	(3.3)	(2.3)	(2.7)	(1.8)
Adjusted EBITDA	$ 66.2	$ 120.4	$ 65.4	$ 131.6	$ 183.4
Adjusted EBITDA margin					
Total revenue	$ 437.4	$ 414.4	$ 359.6	$ 797.0	$ 736.9
Adjusted EBITDA	66.2	120.4	65.4	131.6	183.4
Adjusted EBITDA margin	15%	29%	18%	17%	25%
Net debt to capitalization					
Net debt					
Total debt	$ -	$ 1.9	$ -		
Cash and cash equivalents	(84.3)	(99.6)	(74.9)		
Net debt (cash)	$ (84.3)	$ (97.7)	$ (74.9)		
Capitalization					
Net debt (cash)	$ (84.3)	$ (97.7)	$ (74.9)		
Add: equity attributable to equity shareholders of the Company	677.4	611.5	640.9		
Capitalization	$ 593.1	$ 513.8	$ 566.0		
Net debt to capitalization	-	-	-		
Total liquidity					
Cash and cash equivalents	$ 84.3	$ 99.6	$ 74.9		
Available credit facility	250.0	250.0	250.0		
Less outstanding letters of credit	(15.2)	(8.5)	(14.8)		
Total liquidity	$ 319.1	$ 341.1	$ 310.1		

Figures in the table above may not equal or sum to figures presented elsewhere due to rounding.
(1) Other (income) expense, net of changes in fair market value less cost to sell of biological assets.

Accounting Policies and Standards

Several new standards, and amendments to existing standards and interpretations, were not yet effective as at June 30, 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 and six months ended June 30, 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 and six months ended June 30, 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 June 30, 2022, such instruments aggregated $16.1 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 and six months ended June 30, 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 and six months ended June 30, 2022. The Company continues to monitor potential impacts of the COVID-19 pandemic 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 June 30, 2022, that have materially affected, or are reasonably likely to materially affect, its ICFR.

Outstanding Share Data

As of August 3, 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 six months ended June 30, 2022, no options were granted, 250,000 previously granted options were exercised and no options were forfeited. As of August 3, 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	
		Q2	Q1	Q4	Q3	Q2	Q1	Q4	Q3
Average exchange rate – USD to CAD		1.276	1.267	1.260	1.260	1.228	1.265	1.303	1.332
Average exchange rate – CAD to USD		0.783	0.789	0.793	0.794	0.814	0.790	0.767	0.751
Financial performance									
Revenue									
Lumber		$ 351.8	$ 313.9	$ 268.0	$ 299.8	$ 353.1	$ 276.6	$ 256.6	$ 208.6
Logs		70.8	32.7	48.9	41.0	46.3	33.1	53.4	73.7
By-products		14.8	13.0	11.0	12.1	15.0	12.8	8.9	8.3
Total revenue		$ 437.4	$ 359.6	$ 327.9	$ 352.9	$ 414.4	$ 322.5	$ 318.9	$ 290.6
Adjusted EBITDA		$ 66.2	$ 65.4	$ 52.5	$ 66.3	$ 120.4	$ 62.9	$ 71.1	$ 33.7
Adjusted EBITDA margin		15%	18%	16%	19%	29%	20%	22%	12%
Net income		$ 38.6	$ 38.0	$ 28.5	$ 42.2	$ 78.3	$ 53.8	$ 34.4	$ 11.5
Earnings per share									
Basic		$ 0.12	$ 0.12	$ 0.08	$ 0.12	$ 0.21	$ 0.14	$ 0.09	$ 0.03
Diluted		$ 0.12	$ 0.11	$ 0.08	$ 0.12	$ 0.21	$ 0.14	$ 0.09	$ 0.03
Operating statistics									
Lumber (1)									
Production	Mmfbm	173	175	179	175	207	199	180	192
Shipments	Mmfbm	197	186	164	193	221	204	204	165
Price	$/mfbm	$ 1,786	$ 1,688	$ 1,634	$ 1,553	$ 1,598	$ 1,356	$ 1,258	$ 1,264
Logs (2)									
Net production	000 m^3	904	748	700	690	1,012	688	901	1,138
Saw log purchases	000 m^3	328	290	211	227	227	195	222	235
Log availability	000 m^3	1,232	1,038	911	917	1,239	883	1,123	1,373
Shipments	000 m^3	391	167	378	325	351	284	471	679
Price (3)	$/$m^3$	$ 166	$ 163	$ 117	$ 120	$ 127	$ 110	$ 109	$ 106
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	$ 4.0	$ 3.3	$ 3.3	$ 3.6	$ 3.6	$ 3.8	$ -	$ -
Non-GAAP Financial Measures									
Net income		$ 38.6	$ 38.0	$ 28.5	$ 42.2	$ 78.3	$ 53.8	$ 34.4	$ 11.5
Add:									
Amortization		12.8	12.7	12.7	12.0	13.3	12.9	14.3	14.0
Changes in fair value of biological assets		-	0.5	0.2	0.8	1.5	1.2	1.2	0.6
Operating restructuring expense		0.2	0.6	0.8	0.9	0.5	0.5	0.6	0.5
Other expense (income) (4)		(0.2)	0.1	(0.3)	(4.0)	(1.4)	(16.7)	6.2	0.6
Finance costs (income)		0.3	0.4	0.2	0.4	0.4	0.9	(0.5)	2.0
Current income tax expense		14.9	15.4	10.5	13.6	31.2	8.8	-	-
Deferred income tax (recovery)		(0.4)	(2.3)	(0.3)	0.4	(3.3)	1.5	15.1	4.4
Adjusted EBITDA		$ 66.2	$ 65.4	$ 52.5	$ 66.3	$ 120.4	$ 62.9	$ 71.1	$ 33.7
Divided by total revenue		437.4	359.6	327.9	352.9	414.4	322.5	318.9	290.6
Adjusted EBITDA margin		15%	18%	16%	19%	29%	20%	22%	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 expense (income), 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 second quarter as it builds log inventory during optimal harvest conditions and builds lumber inventory in advance of seasonally high lumber demand.

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

Logs harvested from private timberlands increased in advance of the Orca Quarry site disposal in the first half of 2021. 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 half of 2022 were constrained by vessel, rail and trucking capacity. Log supply shortages limited the Company's lumber production in the first half of 2022.

Western Forest Products Inc.

Unaudited Condensed Consolidated Interim Financial Statements

For the three and six months ended June 30, 2022 and 2021

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

	June 30, 2022	December 31, 2021
Assets		
Current assets:		
Cash and cash equivalents	$ 84.3	$ 130.0
Trade and other receivables	69.0	57.4
Inventory (Note 5)	266.1	207.2
Prepaid expenses and other assets	23.5	16.4
	442.9	411.0
Non-current assets:		
Property, plant and equipment (Note 6)	340.1	343.2
Timber licenses	98.3	100.3
Biological assets (Note 7)	48.6	49.1
Other assets (Note 8)	53.6	55.2
Deferred income tax assets	0.2	0.2
	$ 983.7	$ 959.0
Liabilities and Equity		
Current liabilities:		
Accounts payable and accrued liabilities	$ 139.1	$ 112.8
Income taxes payable	6.4	64.1
Lease liabilities	5.0	5.5
Reforestation obligation (Note 10)	9.4	9.9
Deferred revenue (Notes 15, 19(c))	2.0	2.0
	161.9	194.3
Non-current liabilities:		
Lease liabilities	13.4	12.8
Reforestation obligation (Note 10)	13.9	12.5
Other liabilities (Note 12)	14.5	22.0
Deferred revenue (Notes 15, 19(c))	45.5	46.5
Deferred income tax liabilities	52.0	53.7
	301.2	341.8
Equity:		
Share capital (Note 13)	416.6	420.8
Contributed surplus	9.0	9.0
Translation reserve	(0.8)	(2.2)
Retained earnings	252.6	184.5
Total equity attributable to equity shareholders of the Company	677.4	612.1
Non-controlling interest	5.1	5.1
	682.5	617.2
	$ 983.7	$ 959.0

Commitments and contingencies (Note 19)
Subsequent events (Notes 13, 21)
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 June 30,		Six months ended June 30,	
	2022	2021	2022	2021
Revenue (Note 15)	$ 437.4	$ 414.4	$ 797.0	$ 736.9
Cost of expenses:				
Cost of goods sold	328.5	254.4	585.2	482.8
Freight	31.1	26.8	57.1	49.6
Export tax (Note 19(a))	14.7	10.8	26.2	19.0
Selling and administration	9.7	16.7	22.9	31.0
	384.0	308.7	691.4	582.4
Operating income prior to restructuring and other items	53.4	105.7	105.6	154.5
Operating restructuring expense	(0.2)	(0.5)	(0.8)	(1.0)
Other income (Note 16)	0.2	1.4	0.1	18.1
Operating income	53.4	106.6	104.9	171.6
Finance costs	0.3	0.4	0.7	1.3
Income before income taxes	53.1	106.2	104.2	170.3
Income tax expense (recovery) (Note 17)				
Current	14.9	31.2	30.3	40.0
Deferred	(0.4)	(3.3)	(2.7)	(1.8)
	14.5	27.9	27.6	38.2
Net income	38.6	78.3	76.6	132.1
Net income attributable to equity shareholders of the Company	38.1	78.0	75.9	131.6
Net income attributable to non-controlling interest	0.5	0.3	0.7	0.5
	38.6	78.3	76.6	132.1
Other comprehensive income				
Items that will not be reclassified to profit or loss:				
Employee future benefits actuarial gain (loss)	0.4	0.9	3.6	2.9
Income tax expense (Note 17)	(0.1)	(0.3)	(1.0)	(0.9)
Total items that will not be reclassified to profit or loss	0.3	0.6	2.6	2.0
Items that may be reclassified subsequently to profit or loss:				
Foreign currency translation differences for foreign operations	2.2	(0.8)	1.4	(1.8)
Total comprehensive income	$ 41.1	$ 78.1	$ 80.6	$ 132.3
Earnings per share (in dollars) (Note 18)				
Basic and diluted	$ 0.12	$ 0.21	$ 0.23	$ 0.35

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	-	-	-	131.6	0.5	132.1
Other comprehensive income (loss):						
Employee future benefits actuarial gain	-	-	-	2.9	-	2.9
Income tax expense on actuarial gain (Note 17)	-	-	-	(0.9)	-	(0.9)
Foreign currency translation differences for foreign operations	-	-	(1.8)	-	-	(1.8)
Total comprehensive income (loss)	-	-	(1.8)	133.6	0.5	132.3
Stock options recognized in equity (Note 14(a))	-	0.2	-	-	-	0.2
Exercise of stock options (Notes 13, 14(a))	0.3	(0.2)	-	-	-	0.1
Repurchase of shares (Note 13)	(20.1)	-	-	(12.2)	-	(32.3)
Dividends	-	-	-	(7.4)	-	(7.4)
Non-controlling interest	-	-	-	14.6	5.2	19.8
Distribution to a non-controlling interest	-	-	-	-	(0.5)	(0.5)
Total transactions with owners, recorded directly in equity	(19.8)	-	-	(5.0)	4.7	(20.1)
Balance at June 30, 2021	$ 460.1	$ 10.4	$ (3.7)	$ 144.7	$ 6.3	$ 617.8
Balance at December 31, 2021	$ 420.8	$ 9.0	$ (2.2)	$ 184.5	$ 5.1	$ 617.2
Net income	-	-	-	75.9	0.7	76.6
Other comprehensive income:						
Employee future benefits actuarial gain	-	-	-	3.6	-	3.6
Income tax expense on actuarial gain (Note 17)	-	-	-	(1.0)	-	(1.0)
Foreign currency translation differences for foreign operations	-	-	1.4	-	-	1.4
Total comprehensive income	-	-	1.4	78.5	0.7	80.6
Stock options recognized in equity (Note 14(a))	-	0.1	-	-	-	0.1
Exercise of stock options (Notes 13, 14(a))	0.1	(0.1)	-	(0.1)	-	(0.1)
Repurchase of shares (Note 13)	(4.3)	-	-	(3.0)	-	(7.3)
Dividends	-	-	-	(7.3)	-	(7.3)
Distributions to a non-controlling interest	-	-	-	-	(0.7)	(0.7)
Total transactions with owners, recorded directly in equity	(4.2)	-	-	(10.4)	(0.7)	(15.3)
Balance at June 30, 2022	$ 416.6	$ 9.0	$ (0.8)	$ 252.6	$ 5.1	$ 682.5

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 June 30, 2022	Three months ended June 30, 2021	Six months ended June 30, 2022	Six months ended June 30, 2021
Cash provided by (used in):				
Operating activities:				
Net income	$ 38.6	$ 78.3	$ 76.6	$ 132.1
Items not involving cash:				
Amortization of property, plant and equipment (Note 6)	11.8	12.3	23.5	24.2
Amortization of timber licenses	1.0	1.0	2.0	2.0
Loss (gain) on disposal of property, plant, equipment and other assets (Notes 6, 7)	0.1	(1.9)	(1.3)	(19.3)
Amortization of deferred revenue (Note 15)	(0.5)	(0.5)	(1.0)	(1.0)
Finance costs	0.3	0.4	0.7	1.3
Income tax expense (Note 17)	14.5	27.9	27.6	38.2
Change in fair value of biological assets (Note 7)	-	1.5	0.5	2.7
Change in reforestation obligation (Note 10)	0.9	0.5	0.7	0.4
Share-based compensation, including mark-to-market adjustment (Note 14)	(2.4)	4.1	(1.4)	8.6
Change in employee future benefits obligation (Note 11)	(0.5)	(0.3)	(1.0)	(0.6)
Foreign exchange and other	(3.2)	3.3	0.2	5.1
Income taxes paid	(29.6)	(0.2)	(88.0)	(0.2)
	31.0	126.4	39.1	193.5
Changes in non-cash working capital items:				
Trade and other receivables	4.3	(7.8)	(10.4)	(16.8)
Inventory	(31.3)	(25.6)	(58.6)	(16.9)
Prepaid expenses and other assets	1.1	5.1	(6.9)	1.6
Accounts payable and accrued liabilities	16.9	15.2	23.0	(2.4)
	(9.0)	(13.1)	(52.9)	(34.5)
	22.0	113.3	(13.8)	159.0
Investing activities:				
Additions to property, plant and equipment (Note 6)	(6.9)	(7.3)	(12.9)	(11.6)
Proceeds of property, equipment and other disposals	0.2	6.9	1.9	44.6
Deposits on purchase of equipment	-	-	(2.0)	-
Proceeds on disposition of minority interest in subsidiary	-	19.8	-	19.8
	(6.7)	19.4	(13.0)	52.8
Financing activities:				
Interest received (paid)	0.1	0.1	(0.1)	(0.6)
Repayment of credit facility (Note 9)	-	(0.5)	-	(70.2)
Repayment of bank indebtedness	-	-	-	(0.2)
Repayment of long-term equipment loan (Note 9)	-	(0.2)	-	(0.3)
Lease payments	(2.0)	(1.9)	(3.8)	(3.8)
Repurchase of shares (Note 13)	-	(29.9)	(7.3)	(32.2)
Proceeds from exercise of stock options (Notes 13, 14(a))	-	-	-	0.1
Dividends	(4.0)	(3.6)	(7.3)	(7.4)
Distributions to a non-controlling interest	-	(0.2)	(0.4)	(0.5)
	(5.9)	(36.2)	(18.9)	(115.1)
Increase (decrease) in cash and cash equivalents	9.4	96.5	(45.7)	96.7
Cash and cash equivalents, beginning of period	74.9	3.1	130.0	2.9
Cash and cash equivalents, June 30	$ 84.3	$ 99.6	$ 84.3	$ 99.6

Supplementary information on non-cash transactions:
In addition to cash distributions paid to a non-controlling interest, $nil and $0.3 million of distributions were declared and settled by way of an offset to a receivable for the three and six months ended June 30, 2022, respectively (Q2 2021 and YTD 2021: $nil).

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

1. Reporting entity

Western Forest Products Inc. ("Western" or the "Company") is an integrated softwood forest products company, incorporated and domiciled in Canada, operating in the coastal region of British Columbia ("BC") and Washington State. The address of the Company's head office is Suite 800 – 1055 West Georgia Street, Vancouver, BC, Canada. The unaudited condensed consolidated interim financial statements as at and for the three and six months ended June 30, 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.* These interim financial statements do not include all of the disclosures required by International Financial Reporting Standards ("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 and six months ended June 30 may be referred to as Q2 and YTD, respectively.

The interim financial statements were authorized for issue by the Board of Directors on August 3, 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 and six months ended June 30, 2022. The Company's critical accounting estimates are described in its annual consolidated financial statements for the year ended December 31, 2021.

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.

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

4. Seasonality of operations

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

5. Inventory

	June 30, 2022			December 31, 2021		
	Gross carrying value	Provisions	Lower of cost and net realizable value	Gross carrying value	Provisions	Lower of cost and net realizable value
Logs	$ 157.1	$ (5.9)	$ 151.2	$ 90.0	$ (2.7)	$ 87.3
Lumber	106.0	(12.3)	93.7	108.2	(6.8)	101.4
Supplies and other	21.2	-	21.2	18.9	(0.4)	18.5
	$ 284.3	$ (18.2)	$ 266.1	$ 217.1	$ (9.9)	$ 207.2

The carrying amount of inventory recorded at net realizable value was $59.2 million at June 30, 2022 (December 31, 2021: $31.5 million), with the remaining inventory recorded at cost.

For the three months and six months ended June 30, 2022, $328.5 million and $585.2 million (Q2 2021 and YTD 2021: $254.4 million and $482.8 million, respectively) of inventory was charged to cost of goods sold. This includes an increase in the provision for write-down to net realizable value of $11.5 million and $8.3 million for the three and six months ended June 30, 2022, respectively (Q2 2021 and YTD 2021: increase of $1.0 million and a decrease of $4.4 million, respectively).

(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	-	-	13.8	2.2	16.0	3.6	19.6
Disposals	(0.1)	(1.2)	-	-	(1.3)	(0.7)	(2.0)
Transfers	-	14.0	(14.2)	0.2	-	-	-
Effect of movements in exchange rates	0.3	0.9	-	-	1.2	0.1	1.3
Balance at June 30, 2022	$ 58.8	$ 459.3	$ 15.1	$ 236.7	$ 769.9	$ 36.5	$ 806.4
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		14.7		5.6	20.3	3.2	23.5
Disposals		(1.1)		-	(1.1)	(0.6)	(1.7)
Effect of movements in exchange rates		0.2		-	0.2	-	0.2
Balance at June 30, 2022		$ 240.4		$ 207.7	$ 448.1	$ 18.2	$ 466.3
Carrying amounts							
At December 31, 2021	$ 58.6	$ 219.0	$ 15.5	$ 32.2	$ 325.3	$ 17.9	$ 343.2
At June 30, 2022	$ 58.8	$ 218.9	$ 15.1	$ 29.0	$ 321.8	$ 18.3	$ 340.1

The Company utilized $3.1 million of cash deposits in the first six months ended June 30, 2022 (YTD 2021: $nil) as equipment was delivered.

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

7. Biological assets

Reconciliation of carrying amount

	Three months ended June 30,		Six months ended June 30,	
	2022	2021	2022	2021
Carrying value, beginning	$ 48.6	$ 51.6	$ 49.1	$ 53.6
Disposals	-	-	-	(0.8)
Change in fair value due to growth and pricing	0.3	0.3	0.6	0.6
Harvested timber transferred to inventory	(0.3)	(1.8)	(1.1)	(3.3)
Carrying value, June 30	$ 48.6	$ 50.1	$ 48.6	$ 50.1

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 June 30, 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 and six months ended June 30, 2022, the Company harvested and scaled 33,581 cubic metres ("m^3") and 110,514 m^3 of logs, respectively (Q2 2021 and YTD 2021: 129,120 m^3 and 244,417 m^3, respectively, 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 $198 per m^3 at the date of harvest (2021: $132 per m^3).

8. Other assets

	June 30, 2022	December 31, 2021
Export tax receivable and related interest (Note 19(a))	$ 41.4	$ 40.4
Investments, long-term loans and advances	11.4	10.0
Note receivable	2.6	2.6
Cash deposits on equipment	-	1.2
Other	0.8	1.0
	56.2	55.2
Current portion of note receivable	2.6	-
	$ 53.6	$ 55.2

9. Long-term debt

	June 30, 2022	December 31, 2021
Balance at December 31	$ -	$ 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	$ -	$ -

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.

(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 June 30, 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 June 30,		Six months ended June 30,	
	2022	2021	2022	2021
Reforestation obligation, beginning	$ 22.3	$ 22.4	$ 22.4	$ 22.4
Provision charged	4.9	1.9	6.7	2.8
Expenditures	(4.0)	(1.5)	(6.0)	(2.5)
Unwind of discount	0.1	-	0.2	0.1
	23.3	22.8	23.3	22.8
Less current portion	9.4	10.2	9.4	10.2
Long term reforestation obligation, June 30	$ 13.9	$ 12.6	$ 13.9	$ 12.6

The reforestation expenditures are expected to occur over the next one to ten years and have been discounted at risk-free rates of 3.05% to 3.18% (2021: 0.25% to 1.40%). The total undiscounted amount of the estimated future expenditures required to settle the reforestation obligation at June 30, 2022 is $25.4 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:

	June 30, 2022	December 31, 2021
Present value of obligations	$ 96.6	$ 120.4
Fair value of plan assets	(90.4)	(109.8)
Liability recognized in the statement of financial position (Note 12)	$ 6.2	$ 10.6

The change in the liability recognized in the statement of financial position at June 30, 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 June 30, 2022 was 5.05% 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.

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

12. Other liabilities

	June 30, 2022	December 31, 2021
Defined benefit employee future benefits obligation (Note 11)	$ 6.2	$ 10.6
Defined contribution employee future benefits obligation	2.3	1.0
Environmental accruals	1.7	1.6
Performance share unit plan liabilities, non-current (Note 14(c))	2.1	6.3
Restricted share unit plan liabilities, non-current (Note 14(d))	1.3	1.5
Other	0.9	1.0
	$ 14.5	$ 22.0

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 June 30, 2022	325,510,128	$ 416.6

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.

On January 24, 2022, the Company reached the maximum shares permitted under the NCIB with the purchase and cancellation of 3,379,027 shares for $7.3 million at an average price of $2.17 per share, of which $4.3 million was charged to share capital and $3.0 million to retained earnings (YTD 2021: 15,723,116 shares purchased for $32.2 million at an average price of $2.05 per share, with charges of $20.1 million and $12.1 million to share capital and retained earnings, respectively).

On August 3, 2022, the NCIB was renewed effective August 11, 2022, permitting the purchase and cancellation of up to 27,420,905 of the Company’s common shares, representing 10% of the public float outstanding as of August 3, 2022. The renewed NCIB expires August 10, 2023.

In addition, 250,000 stock options were exercised in the first six months ended June 30, 2022 with 108,585 common shares issued on a cashless basis resulting in a negligible charge to retained earnings. (YTD 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 resulting in a $0.1 million charge to retained earnings).

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.

(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:

	Six months ended June 30, 2022		Six months ended June 30, 2021	
	Number of options	Weighted average exercise price	Number of options	Weighted average exercise price
Outstanding at December 31	15,247,304	$ 1.71	18,259,924	$ 1.58
Exercised	(250,000)	0.96	(512,620)	0.80
Outstanding at June 30	14,997,304	$ 1.72	17,747,304	$ 1.60

For the three and six months ended June 30, 2022, the Company recorded equity-based compensation expense in respect of options of $nil and $0.1 million, respectively (Q2 2021 and YTD 2021: $0.1 million and $0.3 million expense, respectively) 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.

	Six months ended June 30, 2022		Six months ended June 30, 2021	
	Number of DSUs	Weighted average unit value[1]	Number of DSUs	Weighted average unit value[1]
Outstanding at December 31	2,288,822	$ 1.43	2,471,200	$ 1.19
Granted[1]	240,816	1.64	141,897	1.96
Redeemed	(97,500)	1.09	(25,000)	1.53
Outstanding at June 30	2,432,138	$ 1.46	2,588,097	$ 1.23

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

For the three and six months ended June 30, 2022, the Company recorded compensation recovery for DSUs of $1.3 million and $1.5 million, respectively (Q2 2021 and YTD 2021: $0.8 million and $2.1 million expense, respectively), with corresponding changes in accounts payable and accrued liabilities.

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

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

	Six months ended June 30, 2022		Six months ended June 30, 2021	
	Number of PSUs	Weighted average unit value[1]	Number of PSUs	Weighted average unit value[1]
Outstanding at December 31	3,538,407	$ 1.40	2,838,304	$ 1.54
Granted[1]	941,768	2.07	1,176,317	1.56
Redeemed	(718,165)	1.89	(512,649)	2.61
Forfeited	(112,919)	1.46	-	-
Outstanding at June 30	3,649,091	$ 1.47	3,501,972	$ 1.39

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

For the three and six months ended June 30, 2022, the Company recorded compensation recovery for PSUs of $1.0 million and $0.2 million, respectively (Q2 2021 and YTD 2021: $2.8 million and $5.5 million expense, respectively), with corresponding changes in other liabilities.

(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.

	Six months ended June 30, 2022		Six months ended June 30, 2021	
	Number of RSUs	Weighted average unit value[1]	Number of RSUs	Weighted average unit value[1]
Outstanding at December 31	2,201,462	$ 1.52	357,060	$ 1.05
Granted[1]	752,050	2.07	1,359,390	1.55
Forfeited	(89,095)	1.56	-	-
Outstanding at June 30	2,864,417	$ 1.66	1,716,450	$ 1.45

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

For the three and six months ended June 30, 2022, the Company recorded compensation recovery for RSUs of $0.1 million and compensation expense of $0.2 million, respectively (Q2 2021 and YTD 2021: $0.4 million and $0.7 million expense, respectively) with corresponding changes in accounts payable and accrued liabilities and to 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 products.

	Three months ended June 30,		Six months ended June 30,	
	2022	2021	2022	2021
Primary geographic markets				
Canada	$ 166.5	$ 140.4	$ 270.6	$ 243.9
United States	142.7	168.1	271.2	302.0
Japan	58.5	36.5	120.1	59.3
China	26.8	33.6	56.5	69.7
Other	42.9	35.8	78.6	62.0
	$ 437.4	$ 414.4	$ 797.0	$ 736.9
Major Products				
Lumber	$ 351.8	$ 353.1	$ 665.7	$ 629.7
Logs	70.8	46.3	103.5	79.4
By-products	14.8	15.0	27.8	27.8
	$ 437.4	$ 414.4	$ 797.0	$ 736.9

Contract balances

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

	June 30, 2022	December 31, 2021
Trade and other receivables	$ 69.0	$ 57.4
Other investments and advances	1.8	2.2
Contract liabilities	47.5	48.5

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 and $1.0 million for the three and six months ended June 30, 2022, respectively (Q2 2021 and YTD 2021: $0.5 million and $1.0 million, respectively).

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

16. Other income

	Three months ended June 30,		Six months ended June 30,	
	2022	2021	2022	2021
Gain (loss) on disposal of property, plant, equipment and other assets (Notes 6, 7)	$ (0.1)	$ 1.9	$ 1.3	$ 19.4
Foreign exchange gains (losses)	0.6	(0.5)	(0.2)	(1.0)
Other	(0.3)	-	(1.0)	(0.3)
	$ 0.2	$ 1.4	$ 0.1	$ 18.1

Western recognized a gain of $1.3 million on disposal of property, plant, equipment and other assets in the six months ended June 30, 2022, attributable primarily to the sale of remaining non-core assets of its Somass operation. The gain on disposal of property, plant, equipment and other assets in YTD 2021 was 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 June 30,		Six months ended June 30,	
	2022	2021	2022	2021
Income before income taxes	$ 53.1	$ 106.2	$ 104.2	$ 170.3
Income tax expense at statutory rate of 27% (2021 – 27%)	$ 14.3	$ 28.7	$ 28.1	$ 46.0
Difference in tax rates	(0.4)	(0.3)	(0.8)	(0.4)
Other permanent differences	0.6	(0.9)	0.8	(2.9)
Change in unrecognized deductible temporary differences	(0.1)	0.4	-	(4.5)
Other	0.1	-	(0.5)	-
	$ 14.5	$ 27.9	$ 27.6	$ 38.2

In addition to the amounts recorded to net income, deferred tax expense of $0.1 million and $1.0 million was recorded in other comprehensive income for the three and six months ended June 30, 2022 in relation to actuarial gains on employee future benefit obligations (Q2 2021 and YTD 2021: expense of $0.3 million and $0.9 million, respectively, in relation to actuarial gains on employee future benefit obligations).

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

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 June 30, 2022			Three months ended June 30, 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, beginning of period		325,510,128			374,171,121	
Effect of shares:						
Issued in the quarter		-			-	
Repurchased in the quarter		-			(5,355,236)	
Basic earnings per share	$ 38.1	325,510,128	$ 0.12	$ 78.0	368,815,885	$ 0.21
Effective of dilutive securities:						
Stock options		2,694,556			4,960,952	
Diluted earnings per share	$ 38.1	328,204,684	$ 0.12	$ 78.0	373,776,837	$ 0.21

	Six months ended June 30, 2022			Six months ended June 30, 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 in the first six months		76,789			135,720	
Repurchased in the first six months		(3,109,578)			(3,403,599)	
Basic earnings per share	$ 75.9	325,747,781	$ 0.23	$ 131.6	371,964,287	$ 0.35
Effective of dilutive securities:						
Stock options		2,978,547			3,938,442	
Diluted earnings per share	$ 75.9	328,726,328	$ 0.23	$ 131.6	375,902,729	$ 0.35

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 to the US from Canada. As a result of these actions, cash deposits for CV were required for Canadian lumber imports to the US effective April 28, 2017 through August 25, 2017, and from December 28, 2017 onwards; and cash deposits for AD were required for Canadian lumber imports to the US effective June 30, 2017 until December 26, 2017, and from December 28, 2017 onwards.

As each DoC Administrative Review (“AR”) of a shipment year is completed, final rates are published in the federal register and a revised cash deposit rate is established until publication of final rates of the next AR.

The Company expenses export taxes at the cash duty deposit rate as lumber shipments are made. Where final duty rates differed from cash deposit rates, the Company recognized an export tax recovery of USD$29.6 million (CAD$38.4 million) in the statement of financial position in prior years and a long-term duty receivable on which it accrues interest.

On January 31, 2022, the DoC released its preliminary determination for CV and AD rates from its third AR. The DoC may revise these rates between the preliminary and the final determination, expected to be released shortly after August 3, 2022. On March 9, 2022, the DoC initiated its fourth AR of CV and AD rates for shipments for 2021.

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

19. Commitments and contingencies (continued)

(a) Softwood lumber duty dispute (continued)

The following table summarizes the cash deposit rates in effect, the rates applicable to Canadian lumber shipments to the US and the duty recoveries recorded:

Administrative review			AR4	AR3	AR2	AR1	AR1
Lumber shipment date	Jan. 10, 2022 through Jun. 30 2022	Dec. 1, 2021 through Jan. 9, 2022	Dec. 1, 2020 through Nov. 30, 2021	Jan. 1 2020 through Nov. 30 2020	Year 2019	Year 2018	Year 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%

	2020 Preliminary	2019 Final	2018 Final	2017 Final
Duty rate, CV	6.88%	6.32%	7.42%	6.71%
Duty rate, AD	4.76%	11.59%	1.57%	1.66%
Duty rate, combined	11.64%	17.91%	8.99%	8.37%

Including interest of USD$2.5 million (December 31, 2021: USD$2.3 million), the duty receivable of USD$32.1 million (December 31, 2021: USD$31.9 million) was revalued at the quarter-end exchange rate to CAD$41.4 million (December 31, 2021: CAD$40.4 million).

Interest revenue of $0.2 million and $0.3 million for the three and six months ended June 30, 2022, respectively were recorded in finance costs (Q2 2021 and YTD 2021: $0.1 million and $0.2 million, respectively). Related foreign exchange gains of $1.2 million and $0.7 million for the three and six months ended June 30, 2022, respectively were recorded in other income (Q2 2021 and YTD 2021: foreign exchange losses of $0.5 million and $1.0 million, respectively).

As at June 30, 2022, the Company had paid $182.0 million of duties, all of which remain held in trust by U.S. Department of Treasury (December 31, 2021: $151.8 million). With the exception of USD$29.6 million (CAD$ 38.4 million) of duty deposits recognized as a receivable, all duty deposits 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 the 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 June 30, 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.

(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)

The following table shows the carrying amounts and fair values of financial assets and financial liabilities, including their levels in the fair value hierarchy. It does not include fair value information for financial assets or liabilities not measured at fair value if the carrying amount is a reasonable approximation of fair value.

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.

		June 30, 2022			December 31, 2021		
	Level	Mandatory at FVTPL	Amortized Cost	Total	Mandatory at FVTPL	Amortized Cost	Total
Financial assets							
Market-based investments	2	$ 4.4	$ -	$ 4.4	$ 4.7	$ -	$ 4.7
Foreign currency forward contracts	2	-	-	-	1.1	-	1.1
Cash and cash equivalents		-	84.3	84.3	-	130.0	130.0
Trade and other receivables		-	69.0	69.0	-	56.3	56.3
Other investments and advances		-	1.8	1.8	-	4.8	4.8
Export tax and related interest receivable (Note 8)	3	41.4	-	41.4	40.4	-	40.4
Total financial assets		$ 45.8	$ 155.1	$ 200.9	$ 46.2	$ 191.1	$ 237.3

	Level	Mandatory at FVTPL	Other Financial Liabilities	Total	Mandatory at FVTPL	Other Financial Liabilities	Total
Financial liabilities							
Foreign currency forward contracts	2	$ 0.1	$ -	$ 0.1	$ -	$ -	$ -
Accounts payable and accrued liabilities		-	139.0	139.0	-	112.8	112.8
Lease liabilities		-	18.4	18.4	-	18.3	18.3
Total financial liabilities		$ 0.1	$ 157.4	$ 157.5	$ -	$ 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 June 30, 2022, the Company had outstanding obligations to sell an aggregate USD$40.0 million at an average exchange rate of CAD$1.2859 per USD with maturities through August 4, 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 June 30,		Six months ended June 30,	
	2022	2021	2022	2021
Fair value of (asset) liability, beginning of period	$ (1.6)	$ 0.2	$ (1.1)	$ (0.6)
Fair value of liability, at June 30	(0.1)	(3.2)	(0.1)	(3.2)
Change in unrealized foreign currency gains (losses)	(1.7)	(3.0)	(1.2)	(3.8)
Realized foreign currency gains (losses) on settled contracts	(0.4)	3.2	0.3	5.0
Foreign currency gains (losses) recognized in revenue	$ (2.1)	$ 0.2	$ (0.9)	$ 1.2

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

21. Subsequent event

On July 19, 2022, Western announced that it entered into an agreement to acquire certain assets of Calvert Company, Inc. ("Calvert") located in Washington State for consideration of USD$12.0 million, including inventory of USD$2.5 million, subject to a customary post-closing inventory adjustment.

Calvert produces high quality glulam beams in multiple species, including Douglas fir, southern yellow pine and yellow cedar, for industrial, commercial and residential projects around the world. Calvert has manufacturing facilities in Washougal, Washington and Vancouver, Washington with a combined annual glulam capacity of approximately 35 million board feet on a two-shift basis. Calvert's operations employ approximately 60 employees and produced approximately 13 million board feet of glulam in 2021 on a single shift basis.

The transaction will be financed with cash on hand and is expected to close in the third quarter of 2022. Completion of the transaction is subject to satisfaction of customary closing conditions.

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