Western Forest Products Inc.

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Western Forest Products Inc.

2019 Annual Report

Management's Discussion & Analysis

The following Management's Discussion and Analysis ("MD&A") reports and comments on the financial condition and results of operations of Western Forest Products Inc. (the "Company", "Western", "us", "we", or "our"), on a consolidated basis, for the three months and year ended December 31, 2019, to help securityholders and other readers understand our company and the key factors underlying our financial results. This discussion and analysis should be read in conjunction with our audited annual consolidated financial statements and the notes thereto for the years ended December 31, 2019 and 2018, which can be found on SEDAR at www.sedar.com.

The Company has prepared the consolidated financial statements for the years ended December 31, 2019 and 2018 in accordance with International Financial Reporting Standards ("IFRS"), as issued by the International Accounting Standards Board. Amounts discussed herein are based on our audited annual consolidated financial statements and are presented in millions of Canadian dollars, unless otherwise noted. Certain prior period comparative figures have been reclassified to conform to the current period's presentation. The Company has adopted IFRS 16, *Leases*, with a date of initial application of January 1, 2019, using a modified retrospective approach. Under the modified retrospective approach, the cumulative effect of initial application has been recognized in retained earnings at January 1, 2019, and comparative information has not been restated and continues to be reported under International Accounting Standards ("IAS") 17, *Leases.*

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

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

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

This MD&A contains statements that may constitute forward-looking statements under the applicable securities laws. Readers are cautioned against placing undue reliance on forward-looking statements. All statements herein, other than statements of historical fact, may be forward-looking statements and can be identified by the use of words such as "will", "estimate", "project", "expect", "anticipate", "plan", "intend", "believe", "seek", "should", "may", "likely", "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: market and general economic conditions, the United Steelworkers Local 1-1937 labour dispute and the impact of the dispute, the regulatory framework, future costs, available harvest levels, capital allocation including issuance of dividends, and our future operating performance, objectives, capital expenditures and strategies. 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: general economic conditions, international demand for the Company's products, the Company's ability to export its products, competition and selling prices, international trade disputes, changes in foreign currency exchange rates, labour disputes and disruptions, natural disasters, relations with First Nations groups, First Nation's claims and settlements, changes in laws, the availability of allowable annual cut and fibre, changes in regulations or public policy affecting the forest industry, changes in opportunities, 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.

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

Unless otherwise noted, the information in this discussion and analysis is updated to February 11, 2020.

Summary of Selected Annual Information [1]

(millions of dollars except per share amounts and where otherwise noted)	As at and for the years ended December 31, 2019	2018	2017
Revenue			
Lumber	$ 628.3	$ 952.9	$ 858.2
Logs	144.0	160.0	214.8
By-products	35.4	83.8	70.4
Total revenue	$ 807.7	$ 1,196.7	$ 1,143.4
Operating income (loss) prior to restructuring and other items	(46.7)	103.4	117.0
Net income (loss)	(46.7)	69.2	74.4
Adjusted EBITDA	$ (1.5)	$ 143.5	$ 152.6
Adjusted EBITDA margin	-0.2%	12.0%	13.3%
Basic and diluted earnings (loss) per share (in dollars)	$ (0.12)	$ 0.18	$ 0.19
Cash dividends declared per share (in dollars)	0.0875	0.0800	0.0800
Total Assets	$ 782.5	$ 855.8	$ 799.6
Net Debt (Cash) [2]	111.3	(2.4)	(35.3)

(1) Included in Appendix A is a table of selected results for the last eight quarters.
(2) Net debt is defined as the sum of long-term debt, revolving credit facility, less cash and cash equivalents.

Overview

Financial results in 2019 were significantly impacted by the strike action (the "Strike") by the United Steelworkers Local 1-1937 ("USW"), which commenced July 1, 2019. The Strike followed a period of weak markets for forest products and a more challenging operating environment in British Columbia ("BC").

Revenue for 2019 was $807.7 million, as compared to revenue of $1,196.7 million in the prior year. Adjusted EBITDA for 2019 was negative $1.5 million, as compared to adjusted EBITDA of $143.5 million in 2018, while the net loss for 2019 was $46.7 million, as compared to net income of $69.2 million in 2018.

We took steps to mitigate the Strike's impact on our customers by selling unencumbered inventories, processing certain unencumbered logs at custom cut facilities and growing our wholesale lumber program. In addition, we took steps to protect the balance sheet by deferring certain capital expenditures, managing expenses and drawing down working capital.

Despite the impact of the Strike and a more challenging operating environment, we continued to make significant progress implementing our strategic initiatives in 2019, including:

- Growing our specialty products business with the asset acquisition of Vancouver, Washington based Columbia Vista Corporation and related entities on February 1, 2019. See "*Summary of 2019 Annual Results – Columbia Vista Acquisition"* for further information.
- Advancing our strategic partnerships with First Nations and continuing to reposition our coastal tenure assets. On March 29, 2019, we completed the sale of a 7% interest in our newly formed TFL 44 Limited Partnership ("TFL 44 LP") to the Huumiis Ventures Limited Partnership (a limited partnership beneficially owned by the Huu-ay-aht First Nations) ("HVLP") for gross proceeds of $7.3 million. See "*Summary of 2019 Annual Results – Sale of Ownership Interest in Port Alberni Forest Operations"* for further information.
- Substantially completing equipment and building upgrades at our Arlington facility and commencing with commissioning and the ramp up of lumber remanufacturing operations. Our Arlington facility will assist us in re-positioning and growing our product lines, streamlining our logistics and distribution platform moving us closer to the final customer.
- More than doubling our wholesale lumber business shipments to 34 million board feet in 2019, as compared to 16 million board feet in 2018. Our wholesale lumber business will allow us to offer an expanded product line, making us more meaningful to our selected customers and further enhancing the viability and success of our coastal sawmills. Our wholesale lumber business has also helped play an important role in supporting our customers during the Strike.

- Executing our sales and marketing strategy, which focuses on the production and sale of targeted, high-margin products of scale to selected customers.
- Further demonstrating our commitment to top tier governance practices. In 2019, we appointed Michael Waites as independent Chair of the Board, added independent directors Laura Cillis and Cheri Phyfer to the Board as Directors, and reconstituted the membership of the Board sub-committees.
- Publishing our inaugural sustainability report to provide expanded environmental, social and governance disclosure of our progress in, and commitment to, defining a higher standard in sustainable management and environmental stewardship.
- Implementing important foundational systems and adjusting our organizational structure and staffing, in support of our growth strategy.
- Continuing with our balanced approach to capital allocation by returning $34.0 million to shareholders through regular, quarterly dividends and repurchasing $15.9 million of our outstanding common shares for cancellation under our normal course issuer bid in 2019.

On February 10, 2020, the Company announced that it had reached a tentative collective agreement with the USW. The tentative agreement is subject to a ratification vote by USW membership. The USW bargaining committee has advised that they will be recommending its members accept the agreement.

As we look forward to 2020, we are excited to have our employees and contractors return to work. Moving forward, we will continue to align our production volumes to match market demand and will look to strengthen our customer relationships. Our long-term focus remains the same; implementing our strategic initiatives to strengthen our foundation; grow our base; and grow our business. We remain committed to a balanced approach to capital allocation, while also considering internal and external growth opportunities to grow long-term shareholder value.

Summary of Selected Quarterly and Annual Results [1]

(millions of Canadian dollars except per share amounts and where otherwise noted)		Q4 2019	Q4 2018	Q3 2019	Annual 2019	Annual 2018
Summary Information						
Revenue						
Lumber		$ 66.1	$ 230.9	$ 109.7	$ 628.3	$ 952.9
Logs		12.1	36.2	27.4	144.0	160.0
By-products		1.9	17.7	4.5	35.4	83.8
Total revenue		$ 80.1	$ 284.8	$ 141.6	$ 807.7	$ 1,196.7
Freight		$ 5.1	$ 24.4	9.5	$ 64.1	$ 90.6
Export tax		3.4	10.1	5.5	27.8	43.0
Stumpage		-	13.8	-	26.0	52.7
Adjusted EBITDA		$ (18.1)	$ 18.0	$ (16.6)	$ (1.5)	$ 143.5
Adjusted EBITDA margin		-22.6%	6.3%	-11.7%	-0.2%	12.0%
Operating income (loss) prior to restructuring and other items		$ (29.6)	$ 7.7	$ (24.2)	$ (46.7)	$ 103.4
Net income (loss)		(29.2)	5.3	(18.7)	(46.7)	69.2
Basic and diluted earnings (loss) per share (in dollars)		(0.09)	0.02	(0.05)	(0.12)	0.18
Operating Information						
Lumber[2]						
Lumber Shipments – millions of board feet						
Western Red Cedar		18	47	26	139	205
Japan Specialty		13	37	19	102	138
Niche		4	24	13	79	96
Commodity		9	110	32	228	441
Total		44	218	90	548	880
Lumber Production – millions of board feet		34	200	48	491	864
Lumber Price – per thousand board feet		$ 1,502	$ 1,059	$ 1,219	$ 1,147	$ 1,083
Wholesale Lumber Shipments - millions of board feet		10	3	11	34	16
Logs[3]						
Log Shipments – thousands of cubic metres						
Export		22	1	2	129	65
Domestic		70	222	193	842	1,037
Pulp		43	146	51	315	407
Total		135	369	246	1,286	1,509
Net production – thousands of cubic metres[4]		21	1,135	21	2,214	4,328
Saw log purchases – thousands of cubic metres		34	212	84	564	979
Log Price – per cubic metre[5]		$ 87	$ 98	$ 110	$ 105	$ 106
Illustrative Lumber Average Price Data[6]	**Price Basis**					
Grn WRC #2 Clear & Btr 4x6W RL ($C)	c.i.f. dest. N Euro	$ 4,478	$ 5,133	$ 4,400	$ 4,492	$ 5,100
Grn WRC Deck Knotty 2x6 RL S4S	Net f.o.b. Mill	$ 1,340	$ 1,418	$ 1,340	$ 1,346	$ 1,493
Grn WRC #2 & Btr AG 6x6 RL	Net f.o.b. Mill	$ 2,291	$ 2,245	$ 2,246	$ 2,257	$ 2,134
Coast Grn WRC Std&Btr NH 3/4x4 RL S1S2E	Net f.o.b. Mill	$ 1,095	$ 1,146	$ 1,095	$ 1,096	$ 1,171
Grn Hem Baby Squares Merch 4-1/8x4-1/8 13' S4S	c.&f. dest. Japan	$ 827	$ 1,000	$ 855	$ 879	$ 949
Grn Dfir Baby Squares Merch 4-1/8x4-1/8 RL S4S	c.&f. dest. Japan	$ 1,035	$ 1,200	$ 1,072	$ 1,096	$ 1,189
KD White Fir Shop Moulding&Btr C&Btr 5/4 S2S	Net f.o.b. Mill	$ 1,085	$ 1,080	$ 1,080	$ 1,081	$ 1,075
Grn Dfir (Portland) #1&Btr 100% FOHC 6x6 Rough	Net f.o.b. Mill	$ 1,234	$ 1,358	$ 1,206	$ 1,256	$ 1,369
Hemlock Lumber 2x4 (40x90) Metric RG Utility	c.i.f. dest. Shanghai	$ 397	$ 440	$ 401	$ 409	$ 486
Average Exchange Rate – CAD to USD		0.758	0.756	0.757	0.754	0.771
Average Exchange Rate – CAD to JPY		82.37	85.32	81.27	82.18	85.19

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

Summary of Fourth Quarter 2019 Results

Fourth quarter results were significantly impacted by the Strike, as all of our timberlands and most of our BC based manufacturing operations were curtailed. We took steps to mitigate the Strike's impact on our customers, business and cash flows by selling the majority of our remaining unencumbered lumber inventory, processing certain unencumbered logs at custom cut facilities, drawing down working capital, and deferring certain expenditures.

Adjusted EBITDA for the fourth quarter of 2019 was negative $18.1 million, as compared to positive adjusted EBITDA of $18.0 million from the same period last year. Operating loss prior to restructuring and other items was $29.6 million, as compared to operating income of $7.7 million in the same period last year.

Sales

Lumber and log sales volume and revenue were impacted by the Strike. Lumber revenue in the fourth quarter was $66.1 million, a decrease of 71.4% from the same period last year. Lumber shipment volumes were 79.8% lower than the same period last year due to the Strike, as most of our manufacturing operations were shutdown in the fourth quarter of 2019. We sold the majority of our remaining unencumbered lumber inventory, processed certain unencumbered logs at custom cut facilities, and continued to execute on our wholesale lumber program to service our customers and help mitigate the impact of the Strike. Our United States ("US") based Columbia Vista division continued to perform in line with our expectations and has been a positive addition to our business and product mix.

Our average realized lumber pricing increased 41.8% as the result of an improved specialty product mix, which was partially offset by a stronger Canadian dollar ("CAD") to United States dollar ("USD"). Specialty lumber represented 79.1% of fourth quarter shipments compared to 49.5% in the same period last year, as we leveraged our wholesale lumber business and custom cut production to supply our customers.

Log revenue was $12.1 million in the fourth quarter of 2019, a decrease of 66.6% from the same period last year. To mitigate the impact of the Strike on our business, we sold certain unencumbered log inventory to help manage cash flow and reduce working capital levels.

By-product revenue was $1.9 million, a decrease of 89.3% as compared to the same period last year as most of our BC coastal operations were shut down due to the Strike.

Operations

To support our selected customers during the Strike, we continued to redirect available inventory to active divisions. We operated on a sub-optimal basis resulting in higher transportation and operating costs. Operating expenses included $16.7 million arising from curtailed operations and related operating inefficiencies as a result of the Strike.

Leading up to the Strike, we drew down inventory at USW-certified operations to supply our remanufacturing and custom cut operations. However, as certain inventory was encumbered by the Strike and degraded over the fourth quarter of 2019, we expensed an additional $2.4 million provision against this restricted inventory.

Lumber production of 34 million board feet was 83.0% lower than the same period last year. Incremental production from our US-based Columbia Vista division, acquired in 2019, and volumes from our custom cut program was more than offset by the curtailment of our BC operations due to the Strike.

We produced 21,000 cubic meters of logs from our BC coastal operations in the fourth quarter of 2019 compared to production of 1,135,000 cubic metres in the same quarter of last year. Fourth quarter log production in 2019 was sourced from joint ventures and limited partnerships, as all our USW-certified timberlands operations were curtailed due to the Strike.

BC coastal saw log purchases were 34,000 cubic metres, an 84.0% decrease from the same period last year. Weaker markets and government policy decisions led to a significant decline in coastal log harvest that reduced market log availability. We sourced our saw log purchases from pre-existing purchase commitments and our joint venture arrangements.

Freight expense decreased by $19.3 million from the same period last year due to lower shipment volumes.

Fourth quarter adjusted EBITDA and operating income included $3.4 million of countervailing duty ("CVD") and anti-dumping duty ("AD"), as compared to $10.1 million in the same period last year. Duty expense declined as a result of reduced US-destined lumber shipment volumes. For further information on CVD and AD see *"Softwood Lumber Dispute and US Market Update"*.

Selling and Administration Expense

Fourth quarter selling and administration expense was $8.0 million in 2019 as compared to $7.6 million in the same period last year. Incremental legal expenses relating to the Strike more than offset cost mitigation savings.

Finance Costs

Finance costs were $2.2 million, compared to $0.7 million in the same period last year. This was primarily due to a higher average outstanding debt balance and higher average interest rates in 2019. As at December 31, 2019, the Company had drawn $114.1 million on its credit facility. See *"Financial Position and Liquidity"* for further information.

Net Income (Loss)

Net loss for the fourth quarter of 2019 was $29.2 million, as compared to net income of $5.3 million for the same period of 2018. Results were significantly impacted by the Strike.

Summary of 2019 Annual Results

Adjusted EBITDA for the year was negative $1.5 million, as compared to positive $143.5 million from the same period last year. Operating loss prior to restructuring and other items was $46.7 million, compared to operating income of $103.4 million during the same period last year.

Sales

Lumber revenue was $628.3 million, a decrease of 34.1% from the same period last year, primarily due to the Strike and more challenging market conditions. Despite the decline in market pricing, our average lumber price realizations increased, benefitting from a higher specialty product mix and a weaker CAD to USD. Specialty lumber represented 58.3% of 2019 annual shipments, compared to 49.9% last year. Despite a more challenging year, we were successful in more than doubling our wholesale lumber volume to service our customers and help mitigate the impact of the Strike.

Log revenue was $144.0 million, a decrease of 10.0% compared to the same period last year. Log revenue benefited from the resumption of our export log sales program in the second quarter of 2019 but was offset by the impact of the Strike in the third and fourth quarters of 2019.

By-products revenue decreased to $35.4 million, from $83.8 million last year, primarily due to lower production and shipments as a result of the Strike. Other factors included declining BC coastal chip prices and lower chip purchase-and-resale volume.

Operations

Lumber production of 491 million board feet was 43.2% lower than the same period last year. Market-related sawmill curtailments and the Strike led to lower production, which more than offset the inclusion of results from our US-based Columbia Vista division.

Log production was 2,214,000 cubic metres, 48.8% lower than the same period last year, primarily due to the Strike in the second half of 2019.

BC coastal saw log purchases were 564,000 cubic metres, a 42.4% decrease from the same period last year, as we managed log purchases to available capacity to support customer needs.

Freight expense decreased by $26.5 million as compared to last year, primarily due to lower shipment volumes as a result of the Strike.

Adjusted EBITDA and operating income included $27.8 million of CVD and AD expense, as compared to $43.0 million in 2018. Duty expense declined as a result of reduced US-destined lumber shipment volumes due to the Strike.

Selling and Administration Expense

Selling and administration expense was $31.1 million, as compared to $32.0 million during the same period last year. We took steps to reduce and manage expenses in order to mitigate increased legal expense and operating losses resulting from the Strike.

Finance Costs

Finance costs were $7.8 million, compared to $2.7 million in 2018, primarily due to comparatively higher average outstanding debt and higher average interest rate in 2019.

As a result of adopting IFRS 16, *Leases* on January 1, 2019, we recognized $0.8 million of finance costs on lease payments in 2019. In comparative periods, leasing finance costs were recognized in operating income.

Net Income (Loss)

Net loss for 2019 was $46.7 million, as compared to net income of $69.2 million last year. Net income for the year was lower due to the Strike, which largely curtailed operations in the second half of 2019.

Columbia Vista Asset Acquisition

On February 1, 2019, we completed the asset acquisition of Vancouver, Washington based Columbia Vista Corporation and related entities. This acquisition is consistent with our strategy of pursuing margin-focused business opportunities that complement our position in selected markets. Bringing Western and Columbia Vista together provides us the opportunity to expand our Douglas fir specialty product offerings, particularly in Japan, which will support our BC-based Hemlock programs. The combination of Columbia Vista and Western makes us more meaningful to our selected customers and creates a stronger company for all our employees.

Sale of Ownership Interest in Port Alberni Forest Operations

On March 29, 2019, we completed the sale of a 7% interest in our newly formed TFL 44 LP to HVLP for gross proceeds of $7.3 million. As part of the agreement, HVLP may acquire an additional interest in the TFL 44 LP, which may include a majority interest, subject to further negotiations. TFL 44 LP's assets consist of TFL 44 and certain other associated assets and liabilities of our Port Alberni Forest Operation. We will continue to source fibre from TFL 44 LP to support our BC manufacturing facilities.

Arlington Operation

During 2019, we completed infrastructure and equipment upgrades and commenced secondary processing. However, the expected ramp up of production at the facility has been partially impacted by the Strike and a lack of wholesale lumber supply due to market conditions. Our Arlington facility is currently operating on a reduced basis due to a lack of lumber supply resulting from the Strike.

Operating Restructuring Items

We incurred $3.5 million of operating restructuring costs in 2019, including $1.4 million of non-operating costs incurred due to the indefinite curtailment of the Company's Somass sawmill in 2017. During the fourth quarter of 2019, we incurred $2.1 million in severance and related expenses due to a reduction of approximately 10% in salaried employees as a cost mitigation initiative to limit losses arising from the Strike.

Operating restructuring costs were $4.8 million in 2018, due primarily to the indefinite curtailment of our Somass sawmill, business optimization initiatives and closure of the Englewood train.

Income Taxes

Lower operating earnings led to an income tax recovery of $16.7 million being recognized in 2019, as compared to income tax expense of $25.6 million in 2018.

At December 31, 2019, the Company and its subsidiaries had unused non-capital loss carry forwards totalling approximately $24.1 million in Canada, and $5.2 million in the US, which can be used to reduce taxable income. In addition, the Company has unused capital losses carried forward of approximately $87.9 million in Canada, which are available indefinitely.

Labour Relations Update

Western began negotiations with the USW, the union representing approximately 1,500 of our hourly employees and 1,500 employees working for our timberland contractors in BC, in April 2019 for a new collective agreement to replace our prior agreement, which expired mid-June 2019.

The USW served seventy-two hours' notice of strike action on the Company and some of its contractors on June 28, 2019. On July 1, 2019, the USW commenced a strike. The Strike is ongoing for all of our USW certified manufacturing and timberlands operations. The Strike is also indirectly impacting certain non-USW certified manufacturing operations, including our Ladysmith sawmill (due to insufficient log supply) and our Value-Added remanufacturing facility (due to a lack of lumber supply). Our US based Arlington and Columbia Vista divisions continue to operate, although our Arlington facility is operating on a reduced basis due to a lack of lumber supply caused by the Strike.

Upon receiving strike notice from the USW, we commenced our work stoppage contingency plan with a goal to protect our balance sheet while mitigating the impact of the Strike on our Company, customers and business partners.

On September 13, 2019, the Company and the USW commenced mediation with independent mediators; however, the USW withdrew from mediation with the Company and independent mediators after several hours of talks. The Company and USW subsequently met with the independent mediators on several occasions to resume talks, but on December 17, 2019, negotiations reached an impasse.

On February 6, 2020, the BC Minster of Labour appointed Special Mediators to work with the Company and USW for a period of 10 days to determine if a negotiated settlement could be reached. On February 10, 2020, the Company announced that terms of a tentative collective agreement had been reached. The tentative agreement is subject to a ratification vote by USW membership. The USW bargaining committee has advised that they will be recommending its members accept the agreement. The USW has advised its members that the ratification voting will occur shortly. For a comprehensive history of the Strike please see "*Risks and Uncertainties – Employees and Labour Relations*".

Despite terms of a tentative collective agreement being reached, the Strike is expected to have a negative impact on our first quarter results in 2020 compared to the same period last year, but we are unable to determine the magnitude of that impact at this time.

BC Government Forest Policies

In 2018, the BC Provincial Government (the "Province") introduced a Coastal Revitalization Initiative and further policy initiatives that will affect the BC forest sector regulatory framework. On January 17, 2019, the Premier announced the Province's commitment to make changes to BC's log export policies or rules, Bill 13 and waste policies with the intent to increase domestic and value-added manufacturing in BC.

On April 1, 2019, the Province announced the creation of fibre recovery zones, which are intended to increase the supply of residual fibre from primary harvesting for secondary users. Western estimates that approximately 70% of our timberland operations will be impacted with the creation of fibre recovery zones. The impacts to our business include the potential for higher costs and lower log harvest volumes. The Province has been clear that they do not want to see unintended consequences from the policy implementation. We continue to collaboratively engage with the Province and other stakeholders to ensure that the desired outcome of the policy, less fibre waste and more fibre for domestic manufacturing and pulp production, is met without the unintended consequences of higher costs and less harvest volume for timberland operators.

On April 11, 2019, the Province announced Bill 22, *Forest Amendment Act, 2019*, which came into force on May 30, 2019. The amendments to the *Forest Act* will require tenure holders to receive approval from the Minister before disposing or transferring a tenure agreement to a third party. These amendments will enable the Minister to refuse to approve, or place conditions on the approval of, a disposition or transfer if it is deemed not to be in the public interest or detrimental to competition in the buying or selling of timber or residuals.

On May 16, 2019, Bill 21, *Forest and Range Practices Amendment Act, 2019*, designed to increase opportunities for public input, improve information sharing on forest planning, strengthen the Minister's ability to manage forest activity, expand the definition of wildlife to help protect at-risk species and improve and streamline range-use planning was put into force.

On July 10, 2019, the Province announced the application of a targeted fee-in-lieu of manufacturing for exported logs harvested from BC Timber Sales, as a step towards ensuring that more logs are processed in BC.

On July 17, 2019, the Province announced that a two-person panel had been appointed to lead an Old Growth Strategic Review and provide a report to the Minister of Forests, Lands, Natural Resource Operations and Rural Development (the "MFLNRORD"). The panel will report back to government in spring 2020 with recommendations that are expected to inform a new approach to old-growth management for BC.

On November 28, 2019, Bill 41, Declaration on the Rights of Indigenous Peoples Act (the "Act") came into force. The Act is intended to guide the implementation of the principles of the United Nations Declaration on the Rights of Indigenous Peoples ("UNDRIP") and makes BC the first province in Canada to legally implement UNDRIP. The Act requires the Province to align all laws with UNDRIP, to develop an action plan to achieve this, and regularly report to the legislature to monitor progress. The current Federal Government has also pledged to implement UNDRIP and the Calls to Action of the Truth and Reconciliation Commission. Significant expectation has been raised among Aboriginal groups in BC and across the country as to the impact that this Act and the Federal Government's commitments may have on efforts to achieve true reconciliation with Aboriginal groups. At this time, the Company is unable to predict the outcome of the Act and the implementation of these commitments on Western's ongoing operations or on any sale of its non-core assets and private lands.

In December 2019, the MFLNRORD, indicated that there would be a delay in expanding the fee-in-lieu payment for raw log exports to all cutting permits on the BC coast by six months and that the Province would be shrinking the penalties and zones for fibre recovery zones. Specific details of these policies changes have not been disclosed.

On January 21, 2020, the Province announced changes to the Manufactured Forest Products Regulation effective July 1, 2020 to ensure more accessibility to fibre for local manufacturers. The regulation amendments require lumber that is made from Western Red Cedar ("WRC") or cypress (yellow cedar) to be fully manufactured to be eligible for export. Fully manufactured is defined as lumber that will not be kiln-dried, planed or re-sawn at a facility outside of BC.

The impact these policy initiatives may have on our operations cannot be determined at this time.

Separately, on December 20, 2019, the Company was notified by the MFLNRORD that an alternative method of scale would apply for all the Company's timber that was cut prior to July 1, 2019 and had not been scaled. The Company is required to compile and submit a report of all the timber to MFLNRORD, which will result in stumpage expense becoming payable shortly thereafter. The Company has requested clarification from MFLNRORD and cannot determine the financial impact at this time. We have not accrued for any incremental stumpage expense that may become payable under this alternative scaling method as at December 31, 2019.

Sawmill and Remanufacturing Curtailments

Due to market conditions in 2019, our Cowichan Bay sawmill was temporarily curtailed for a two-week period beginning March 25, 2019, and our Alberni Pacific sawmill was temporarily curtailed for a four-week period beginning March 18, 2019. Our Ladysmith sawmill was temporary curtailed for a two-week period beginning May 6, 2019, due to constrained log supply.

On June 6, 2019, we announced temporary production curtailments at three of our sawmills to align production volumes to customer demand. We curtailed our Duke Point sawmill for two weeks and our Saltair sawmill for one week in June. We reduced operating levels at our Chemainus sawmill from 120 hours per week to 80 hours per week.

On July 24, 2019, we announced an additional temporary curtailment at our Ladysmith sawmill due to illegal strike action taken by the USW, which impeded log supply to the mill. Subsequent to this announcement, the Labour Relations Board confirmed their earlier ruling that the USW tactics were illegal and ordered the USW to refrain from impeding log delivery to the mill. The Ladysmith sawmill continued to operate until it was curtailed on August 23, 2019, due to limited log supply.

On September 6, 2019, our BC Value-Added remanufacturing facility was curtailed in response to limited lumber supply as a result of the Strike. The facility restarted during the fourth quarter of 2019, but its operations were limited.

Due to limited lumber volumes from our suppliers our Arlington remanufacturing facility in Washington State operated sporadically in the second half of 2019.

Financial Position and Liquidity

(millions of Canadian dollars except where otherwise noted)	Q4 2019	Q4 2018	Q3 2019	Annual 2019	Annual 2018
Selected Cash Flow Items					
Operating Activities					
Net income (loss)	$ (29.2)	$ 5.3	$ (18.7)	$ (46.7)	$ 69.2
Amortization	12.4	9.9	9.2	45.4	40.2
Income taxes paid	-	-	6.1	(17.0)	0.3
Other	(1.3)	2.9	(12.5)	(11.2)	23.6
Subtotal	(18.1)	18.1	(15.9)	(29.5)	133.3
Change in non-cash working capital	24.9	(12.5)	38.2	40.0	(15.1)
Cash provided by operating activities	$ 6.8	$ 5.6	$ 22.3	$ 10.5	$ 118.2
Investing Activities					
Additions to property, plant and equipment	$ (1.4)	$ (27.4)	$ (2.4)	$ (26.7)	$ (70.6)
Additions to capital logging roads	(0.2)	$ (3.6)	(1.3)	(10.5)	(12.9)
Purchase of Arlington facility	-	-	-	-	(11.6)
Purchase of Columbia Vista	-	-	-	(37.7)	-
Proceeds from non-controlling interest	-	-	0.8	7.0	-
Other	2.4	2.0	1.5	4.7	3.1
Cash provided by (used in) investing activities	$ 0.8	$ (29.0)	$ (1.4)	$ (63.2)	$ (92.0)
Financing Activities					
Draw on (repayment of) long-term debt	$ 1.3	$ -	$ (7.5)	$ 107.1	$ 7.0
Dividends	(8.5)	(8.7)	(8.4)	(34.0)	(34.3)
Share repurchases	-	(9.1)	(1.9)	(15.9)	(25.2)
Other	(3.4)	6.8	(3.3)	(10.8)	(0.6)
Cash provided by (used in) financing activities	$ (10.6)	$ (11.0)	$ (21.1)	$ 46.4	$ (53.1)
Decrease in cash	$ (3.0)	$ (34.4)	$ (0.2)	$ (6.3)	$ (26.9)
Summary of Financial Position					
Cash and cash equivalents	$ 2.1	$ 8.4	$ 5.1		
Current assets	188.9	297.9	222.4		
Current liabilities	48.6	142.7	57.8		
Total debt, net of deferred financing costs	113.4	6.0	112.0		
Net debt (cash) (1)	111.3	(2.4)	106.9		
Equity	481.8	572.9	519.1		
Total liquidity (2)	136.9	250.4	141.3		
Financial ratios:					
Current assets to current liabilities	3.89	2.09	3.85		
Net debt to capitalization (3)	18.8%	0.0%	17.1%		

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

Cash provided by operating activities in 2019 was $10.5 million as compared to $118.2 million in 2018. We successfully reduced our non-cash working capital by $40.0 million in 2019 to partly offset significantly reduced cash from operations resulting from the Strike.

Cash used in investing activities was $63.2 million in 2019, which includes the $37.7 million asset acquisition of Columbia Vista and $7.3 million to complete infrastructure and equipment upgrades at our Arlington facility. Cash used in investing activities in 2018 was $92.0 million, including the $11.6 million purchase of the Arlington facility.

In the second half of 2019, we reduced our capital spending in order to manage cash flow during the Strike, and incurred only safety, environmental and committed capital expenditures. These capital expenditures were partially offset by proceeds from the sale of an ownership interest in TFL 44 LP and the sale of certain non-core land assets. Our strategic capital program is discussed in more detail under *"Strategy and Outlook"*.

Cash provided by financing activities increased to $46.4 million in 2019, as compared to cash used of $53.1 million in 2018. In 2019, we returned $34.0 million to shareholders through quarterly dividends and repurchased our common shares for cancellation under our normal course issuer bid for $15.9 million.

Liquidity and Capital Resources

On August 8, 2018, we entered into a $250 million syndicated credit facility. The facility matures on August 1, 2022, and includes an accordion feature to access an additional $100 million of debt. The credit facility, in addition to cash generated from operations, will be used to support working capital requirements, debt servicing commitments and capital expenditures.

Total liquidity was $136.9 million at December 31, 2019, compared to $250.4 million at the end of 2018. Liquidity is comprised of cash and cash equivalents of $2.1 million and unused availability under the credit facility of $134.8 million.

At December 31, 2019, the Company had contractual commitments to acquire property, plant and equipment in the amount of $7.5 million.

Based on our current forecasts, we expect sufficient liquidity will be available to meet these commitments as well as our other obligations in 2020. The Company was in compliance with all its financial covenants as at December 31, 2019.

Summary of Contractual Obligations

The following table summarizes our contractual obligations at December 31, 2019, and our payments due for each of the next five years and thereafter, including estimated interest payments:

(millions of Canadian dollars)	Total	2020	2021	2022	2023	2024	Thereafter
Accounts payable and accrued liabilities	$ 35.0	$ 35.0	$ -	$ -	$ -	$ -	$ -
Purchase commitments	16.2	16.2	-	-	-	-	-
Long-term debt	130.2	6.0	3.0	121.2	-	-	-
Lease liabilities	20.2	5.6	4.8	3.7	1.7	1.5	2.9
Reforestation obligation	24.3	8.7	4.2	2.6	1.7	1.3	5.8
Defined benefit pension plan funding obligation	19.6	2.6	2.6	2.6	2.5	2.5	6.8
	$ 245.5	$ 74.1	$ 14.6	$ 130.1	$ 5.9	$ 5.3	$ 15.5

Capital Allocation

Normal Course Issuer Bid

On August 2, 2019, the Company renewed its Normal Course Issuer Bid ("NCIB") permitting the purchase and cancellation of up to 18,763,888 of the Company's common shares or approximately 5% of the common shares issued and outstanding as of August 1, 2019. The Company also entered into an automatic share purchase plan with its designated broker to facilitate purchases of its common shares under the NCIB at times when the Company would ordinarily not be permitted to purchase its common shares due to regulatory restrictions or self-imposed blackout periods.

The Company's previous NCIB to purchase for cancellation up to 19,662,439 common shares expired on August 7, 2019. Under the previous NCIB, the Company purchased 18,381,621 common shares for $35.4 million, at a volume weighted average price of $1.92 per common share, representing approximately 4.7% of the total shares outstanding at the commencement of our previous NCIB.

During 2019, the Company repurchased 8,873,353 common shares under the NCIB for $15.9 million at an average price of $1.79 per common share. As at February 11, 2020, 18,763,888 common shares remain available to be purchased under the current NCIB. The NCIB expires on August 7, 2020.

Strategy and Outlook

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

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

Strengthen the Foundation

- Through our focused capital investments, we have positioned Western as the only company on the coast of BC capable of consuming the complete profile of the coastal forest and competitively manufacturing a diverse product mix.
- Our strategic capital investments have allowed us to increase the production of targeted products and supported the optimization of our coastal operations.
- We have invested in our people and systems to create a platform for pursuing margin-focused growth opportunities.
- We continue to pursue long-term relationships with coastal First Nations to create mutually beneficial opportunities. In 2019, we completed the sale of an ownership interest in our Port Alberni Forest Operation to HVLP, aligning our interests and introducing an opportunity to potentially involve other First Nations in a shared vision for forestry.

Grow the Base

- We optimized our operations and invested in our sawmills and timberlands to improve margins and position ourselves for growth. We continue to look for opportunities to further optimize our operations to enhance profit margins.
- We implemented multiple non-capital margin improvement programs to improve our cost structure and optimize our supply chain.
- The success of our business relationships with First Nations has and continues to drive incremental log volume and enabled Western to grow specialty lumber production in recent years.
- We are executing on our sales and marketing strategy, driving the production and sale of targeted, high-margin products of scale to selected customers that value our product offerings.

Explore Opportunities

- In 2018, we acquired our Arlington distribution and processing facility. The facility allows the Company to increase the production of targeted, finished products while also providing a centralized warehousing and distribution centre to more effectively service our selected US customers.
- In 2019, we acquired the assets of Columbia Vista in Vancouver, Washington, enabling us to offer a broader array of Douglas fir specialty products to our selected customers in both the US and Japan.
- We launched a new wholesale business which will provide complementary products to our industry leading specialty product offerings and enhance our return on capital employed.
- We continue to evaluate opportunities to grow our business and long-term shareholder value.

Sales & Marketing Strategy Update

We continue to progress with the execution of our sales and marketing strategy, which focuses on the production and sale of targeted, high-margin products of scale to selected customers. We supplement our key product offerings with purchased lumber to deliver the suite of products our customers require. Our Columbia Vista division continues to perform in line with our expectations and has been a positive addition to our business and product mix. During 2019 we continued to develop and evaluate growth opportunities for our wholesale lumber business, including more than doubling our shipments to 34 million board feet.

Market Outlook

Our long-term view of market fundamentals remains unchanged. In North America, rising lumber consumption will be driven by increased new home construction, a robust repair and renovation sector and growth of mass timber building technologies. Growing demand and reduced supply due to North American sawmill curtailments is expected to improve market fundamentals and benefit the industry long-term.

Despite positive long-term growth drivers, lumber markets were challenged in 2019 as North American weather events, skilled labour constraints and higher mortgage rates stalled US new home construction and muted growth in repair and renovation spending. In response to weak demand, temporary and permanent production curtailments were announced in the forestry sector. The supply impacts of these announcements are expected to support lumber pricing in 2020.

We are encouraged by the positive market sentiment regarding WRC products heading into the spring building season. Low in-market inventories and recent BC coastal cedar manufacturing closures should benefit WRC product pricing going forward.

In Japan, we expect steady demand for our Douglas fir products, however increased competition from European engineered wood products may pressure pricing. We expect market share erosion and weaker pricing for BC coastal Hemlock lumber in Japan due to the supply shortages as a result of the Strike and increased competition from Japanese Government subsidized domestic species. The Strike has resulted in certain Japanese Hemlock lumber customers switching to competing products. We plan to leverage Columbia Vista's strong and loyal Douglas fir customer base, as well as develop marketing strategies, to help regain our Japanese Hemlock lumber market share.

We anticipate demand for appearance Niche products to improve, resulting in modest price gains. In addition, we expect steady demand in North America for timbers and industrial products due to large scale industrial oil and gas projects currently underway in Canada.

Commodity lumber markets in North America are likely to benefit from previously announced temporary and permanent production curtailments, but we expect any pricing gains to be modest. The Chinese log market continues to be influenced by increased supply of lower priced, beetle impacted logs from Europe. We expect the log market in China to remain competitive over the near term. In the short term, the coronavirus could result in a temporary slow down of log and lumber imports to China. However, a government commitment to housing and continued positive economic growth should support long-term demand for logs and lumber in China.

We expect domestic saw log prices to increase in response to reduced log availability and improving lumber markets. Log supply on the BC coast is expected to remain constrained, as recent government initiates that have increased harvest costs are expected to challenge harvest economics.

We expect modest improvements in pulp log and chip pricing in 2020 due to limited supply.

Strategic Capital Program

Our strategic capital program is focused on the installation of technology that will deliver top quartile performance and improve our ability to manufacture targeted products that yield the best margin. In addition to investments in our manufacturing assets, we also allocate capital to strategic, high-return projects involving our information systems, timberlands assets, and forest inventories.

Given the challenging operating environment on the BC coast, in part due to the uncertainty around BC government policies, we have scaled back our capital investment plans. Until there is an improved operating environment or greater clarity on the impact of BC government policies, the Company has reduced strategic capital investment in BC.

We will continue to evaluate opportunities to invest strategic capital in jurisdictions that create opportunity to grow long-term shareholder value.

Softwood Lumber Dispute and US Market Update

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

Western expensed $27.8 million of export duties in 2019, comprised of CVD and AD at a combined rate of 20.23% on all lumber it sold into the US. On February 3, 2020, the US Department of Commerce ("DoC") issued preliminary revised rates in the CVD and AD first administrative review of shipments for the years ended December 31, 2017 and 2018. The combined preliminary revised rates were 8.37% for 2017 and 8.21% for 2018. The DoC may revise these rates between preliminary and the final determination expected in August 2020. Cash deposits continue at the current rate of 20.23% until the final determinations are published, at which time the 2018 rate will apply to US-destined lumber sales.

At December 31, 2019, Western had $90.9 million of cash on deposit with the US Department of Treasury in respect of these softwood lumber duties.

Including wholesale lumber shipments, our sales to the US market represent approximately 27% of our total revenue in 2019. Our distribution and processing centre in Arlington, Washington and our Columbia Vista division in Vancouver, Washington are expected to partially mitigate the damaging effects of duties on our products destined for the US market. We intend to leverage our flexible operating platform to continue to partially mitigate any challenges that arise from this trade dispute.

Non-GAAP Measures

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

(millions of Canadian dollars except where otherwise noted)	Q4 2019	Q4 2018	Q3 2019	Annual 2019	Annual 2018
Adjusted EBITDA					
Net income (loss)	$ (29.2)	$ 5.3	$ (18.7)	$ (46.7)	$ 69.2
Add:					
Amortization	12.4	9.9	9.2	45.4	40.2
Changes in fair value of biological assets, net	1.4	0.4	(1.4)	2.3	(0.1)
Operating restructuring items	2.1	(0.4)	0.3	3.5	4.8
Other (income) expense (1)	2.8	0.9	(0.7)	2.9	1.1
Finance costs	2.2	0.7	1.9	7.8	2.7
Current income tax expense (recovery)	(3.4)	-	(9.6)	(13.0)	14.3
Deferred income tax expense	(6.6)	1.2	2.6	(3.7)	11.3
Adjusted EBITDA	$ (18.1)	$ 18.0	$ (16.6)	$ (1.5)	$ 143.5
Adjusted EBITDA margin					
Total revenue	$ 80.1	$ 284.8	$ 141.6	$ 807.7	$ 1,196.7
Adjusted EBITDA	(18.1)	18.0	(16.6)	(1.5)	143.5
Adjusted EBITDA margin	-22.6%	6.3%	-11.7%	-0.2%	12.0%
Net debt to capitalization					
Net debt					
Total debt, net of deferred financing costs	$ 113.4	$ 6.0	$ 112.0		
Cash and cash equivalents	(2.1)	(8.4)	(5.1)		
Net debt (cash)	$ 111.3	$ (2.4)	$ 106.9		
Capitalization					
Net debt (cash)	$ 111.3	$ (2.4)	$ 106.9		
Add: Equity	481.8	572.9	519.1		
Capitalization	$ 593.1	$ 570.5	$ 626.0		
Net debt to capitalization	18.8%	-	17.1%		

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.

Critical Accounting Estimates

Reforestation Obligation

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

Valuation of Inventory

We value our log and lumber inventories at the lower of cost and net realizable value. We estimate net realizable value by reviewing current market prices for the specific inventory items based on recent sales prices and current sales orders. If the net realizable value is less than the cost amount, we will record a write-down. The determination of net realizable value at a point in time is generally both objective and verifiable. However, changes in product prices can occur suddenly, which could result in a material write-down in inventories in future periods.

Valuation of Accounts Receivable

We record an allowance for the collection of doubtful accounts receivable based on our best estimate of potentially uncollectible amounts. The best estimate considers past experience with our customer base and a review of current economic conditions and specific customer issues. The Company's general practice is to insure substantially all North American lumber receivables for 90% of value with the Export Development Corporation, while all export sales are sold on either a cash basis or with secured instruments, which reduces the Company's exposure to bad debts.

Pension and Other Post Retirement Benefits

Western has various defined benefit and defined contribution plans, and a group RRSP that provide retirement benefits to most of its salaried employees. A group RRSP is provided to certain hourly employees not covered by forest industry union plans. The Company also provides other post-retirement benefits and pension bridging benefits to eligible retired employees. Our defined benefit plans were closed to new entrants effective June 30, 2006. No further benefits accrue under these plans for years of service after December 31, 2010, and no further benefits accrue under these plans for compensation increases effective December 31, 2016. We retain independent actuarial consultants to perform actuarial valuations of plan obligations and asset values, and advise on the amounts to be recorded in the financial statements. Actuarial valuations include certain assumptions that directly affect the fair value of the assets and obligations and expenses recorded in the financial statements. These assumptions include the discount rate used to determine the net present value of obligations, the return on plan assets used to estimate the increase in the plan assets available to fund obligations, and medical and health care costs used to estimate obligations. Actual experience can vary materially from the estimates and impact the cost of our pension and post-retirement medical and health plans and future cash flow requirements.

Environmental Provisions

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

Contingencies

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

Valuation of Biological Assets

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

Impairments

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

Income Tax Assets and Liabilities

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

Deferred Income Taxes

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

Accounting Policies and Standards

Please refer to Note 2 and 10 of our audited annual consolidated financial statements for the year ended December 31, 2019 for further information on the accounting standards referenced below.

New Accounting Standards

The Company has adopted IFRS 16, *Leases* ("IFRS 16"), with a date of initial application of January 1, 2019, using a modified retrospective approach. Under the modified retrospective approach, the cumulative effect of initial application has been recognized in retained earnings at January 1, 2019, and comparative information has not been restated and continues to be reported under IAS 17, *Leases*.

On transition to IFRS 16, the Company elected to apply a practical expedient to grandfather the assessment of which transactions are leases. IFRS 16 only applies to contracts that were previously recognized as leases. Contracts that were not recognized as leases under IAS 17 were not reassessed for whether there is a lease. As such, the definition of a lease under IFRS 16 was applied only to contracts entered into or changed after January 1, 2019.

As a result of the adoption of IFRS 16, the Company recorded right of use assets ("ROU assets") and lease liabilities of $17.0 million as at January 1, 2019. During the year ended December 31, 2019, the Company recognized amortization of $4.8 million in operating income and finance costs of $0.8 million relating to these ROU assets and lease liabilities. The adoption of IFRS 16 had no impact on the overall cash flow of the Company.

Accounting Standards Not Yet Applied

A number of new and amended IFRS standards are not yet effective for the year ended December 31, 2019 and have not been applied in preparing these financial statements. None of the standards are currently considered by the Company to be significant or likely to have a material impact on future financial statements.

Financial Instruments and Other Instruments

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

During 2019, the Company entered into foreign exchange forward contracts to sell USD and JPY in order to partially mitigate its foreign currency risk. At December 31, 2019, the Company had forward contracts in place to sell an aggregate USD $12.0 million (2018: USD $62.3 million; JPY 155.0 million). A net gain of $0.7 million was recognized on contracts that matured during year (2018: net loss of $5.1 million), which is included in sales in the consolidated statement of comprehensive income.

Off-Balance Sheet Arrangements

Other than short-term and low-value leases for which recognition exemptions are applied under IFRS 16, the Company does not have any off-balance sheet arrangements as at December 31, 2019.

Related Party Transactions

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

	Years ended December 31,	
	2019	2018
Salaries, directors' fees and short-term benefits	$ 4.5	$ 7.2
Post-employment benefits	0.4	0.3
Share-based compensation, including mark-to-market adjustment	(1.2)	2.7
	$ 3.7	$ 10.2

Risks and Uncertainties

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

Employees and Labour Relations

Hourly paid employees at our Canadian manufacturing facilities, timber harvesting operations and a small group of clerical employees are unionized. The majority of the unionized employees are represented by the USW, which holds two collective agreements with the Company, one of which expired mid-June 2019 and which Western has been in negotiations with the USW since April 2019 for a new collective agreement. We applied to the BC Labour Relations Board ("Labour Relations Board") on June 25, 2019 for the appointment of a mediator to assist in negotiations.

The USW served seventy-two hours' notice of strike action on the Company and some of its contractors on June 28, 2019, and on July 1, 2019, the USW commenced the Strike. The Strike is ongoing for all of our USW certified manufacturing and timberlands operations. The Strike is also indirectly impacting certain non-USW certified manufacturing operations, including our Ladysmith sawmill (due to insufficient log supply) and our Value-Added remanufacturing facility (due to a lack of lumber supply). Our US based Arlington and Columbia Vista divisions continue to operate, although our Arlington facility is operating on a reduced basis due to a lack of lumber supply caused by the Strike.

Upon receiving strike notice from the USW, we commenced our work stoppage contingency plan with a goal to protect our balance sheet while mitigating the impact of the Strike on our Company, customers and business partners.

On September 4, 2019, we announced the expectation to begin mediation between the Company and USW with an independent mediator on September 13, 2019. The independent mediator was agreed to by both the Company and the USW but was not appointed by the Labour Relations Board. On September 13, 2019, the USW withdrew from the mediation after several hours of talks, and the mediators informed the Company that the USW would not be returning for talks scheduled for September 14, 2019. On October 17, 2019, we announced that the Company and USW were set to resume talks with the mediators. However, on October 31, 2019, we announced that no further mediation dates had been scheduled and we requested that the USW join us in binding arbitration in order to resolve the dispute.

After resuming talks, the Company announced on November 18, 2019 that active negotiations were no longer occurring and that no future mediation dates had been scheduled. On December 10, 2019, we announced that the Company and USW were set to resume talks with the mediators. However, on December 17, 2019, we announced that negotiations had reached an impasse and no future mediation dates had been scheduled.

On February 4, 2020, the Company announced that the independent mediators had withdrawn from the mediation process as they saw no basis for a negotiated settlement at the time.

On February 6, 2020, the BC Minster of Labour appointed Special Mediators to work with the Company and USW for a period of 10 days to determine if a negotiated settlement could be reached. On February 10, 2020, the Company announced that terms of a tentative collective agreement had been reached. The tentative agreement is subject to a ratification vote by USW membership. The USW bargaining committee has advised that they will be recommending its members accept the agreement.

A separate collective agreement with the USW covering 4 office clerical employees expired December 31, 2019. The Pulp, Paper & Woodworkers of Canada (“PPWC”) represents the remaining unionized employees of the Company. The PPWC collective agreement for the Ladysmith Sawmill (82 employees), expired on December 31, 2019. The PPWC also represents the unionized employees at our Value-Added Remanufacturing Operation (86 employees) with whom the collective agreement expires October 14, 2021. Contract negotiations for the expired USW clerical and PPWC agreements have not commenced and are pending resolution to the Strike. Should the Company be unable to negotiate an acceptable contract for the USW clerical and PPWC collective agreements a strike or lockout could occur.

Continuation of the Strike, or a strike or lockout relating to one of our other collective agreements, could create significant disruption of operations, may affect our ability to meet the immediate needs or our customers, or could have an adverse material impact on our financial condition. Furthermore, a negotiated settlement could result in unplanned increases in wages or benefits payable to unionized employees.

In addition, the Company relies on certain third parties, such as logging contractors, stevedores, trucking companies and railways, whose workforces are unionized, to provide the Company with services necessary to operate the business. If those workers/employers engage in a strike or lockout, our operations could be disrupted.

Regulatory Risks

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

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

Under both the federal and provincial surplus tests, the logs must be advertised for local consumption. Logs are declared surplus and may be exported if there are no offers on the advertised logs by domestic manufacturers. In practice, domestic offers on export volume can be satisfied with replacement volume to minimize operational impacts. However, a substantial increase in domestic demand may adversely impact timber operations as export pricing is generally at a premium to domestic pricing.

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

In 2018, the Province introduced a Coastal Revitalization Initiative and further policy initiatives that will affect the BC forest sector regulatory framework. On January 17, 2019, the Premier announced the Province's commitment to make changes to BC's export, Bill 13 and waste policies with the intent to increase domestic and value-added manufacturing in BC. On April 1, 2019, the Province announced the creation of fibre recovery zones, which are intended to increase the supply of residual fibre from primary harvesting for secondary users. Western estimates that approximately 70% of our timberland operations will be impacted with the creation of fibre recovery zones. The impacts to our business include the potential for higher costs and lower log harvest volumes. The Province has been clear that it does not want to see unintended consequences from the policy implementation. We continue to collaboratively engage with the Province and other stakeholders to ensure that the desired outcome of the policy, less fibre waste and more fibre for domestic manufacturing and pulp production, is met without the unintended consequences of higher costs and less harvest volume for timberland operators.

On April 11, 2019, the Province announced Bill 22, *Forest Amendment Act, 2019*, which came into force on May 30, 2019. The amendments to the *Forest Act* will require tenure holders to receive approval from the Minister before disposing or transferring a tenure agreement to a third party. These amendments will enable the Minister to refuse to approve, or place conditions on the approval of, a disposition or transfer if it is deemed not to be in the public interest or detrimental to competition in the buying or selling of timber or residuals.

On May 16, 2019, Bill 21, *Forest and Range Practices Amendment Act, 2019*, designed to increase opportunities for public input, improve information sharing on forest planning, strengthen the Minister's ability to manage forest activity, expand the definition of wildlife to help protect at-risk species and improve and streamline range-use planning was put into force.

On July 10, 2019, the Province announced the application of a targeted fee-in-lieu of manufacturing for exported logs harvested from BC Timber Sales, as a step towards ensuring that more logs are processed in BC.

On July 17, 2019, the Province announced that a two-person panel had been appointed to lead an Old Growth Strategic Review and provide a report to the Minister of Forests, Lands, Natural Resource Operations and Rural Development. The panel will report back to government in spring 2020 with recommendations that are expected to inform a new approach to old-growth management for BC.

On November 28, 2019, Bill 41, Declaration on the Rights of Indigenous Peoples Act came into force. The Act is intended to guide the implementation of the principles of the UNDRIP and makes BC the first province in Canada to legally implement UNDRIP. The Act requires the Provincial Government to align all laws with UNDRIP, to develop an action plan to achieve this, and regularly report to the legislature to monitor progress. The current Federal Government has also pledged to implement UNDRIP and the Calls to Action of the Truth and Reconciliation Commission. Significant expectation has been raised among Aboriginal groups in BC and across the country as to the impact that this Act and the Federal Government's commitments may have on efforts to achieve true reconciliation with Aboriginal groups. At this time, the Company is unable to predict the outcome of the Act and the implementation of these commitments on Western's ongoing operations or on any sale of its non-core assets and private lands.

In December 2019, the BC Minister of Forests, Lands, Natural Resource Operations and Rural Development indicated a delay in expanding the fee-in-lieu payment for raw log exports to all cutting permits on the BC Coast by six months and indicated shrinking the penalties and zones for fibre recovery zones. Specific details of these policies changes have not been disclosed.

In January 2020, the Province announced changes to the Manufactured Forest Products Regulation effective July 1, 2020 to ensure more accessibility to fibre for local manufacturers. The regulation amendments require timber that is made from WRC or cypress (yellow cedar) to be fully manufactured to be eligible for export. Fully manufactured is defined as timber that will not be kiln-dried, planed or re-sawn at a facility outside of BC.

The impact that these policy initiatives and prospective policy initiatives or regulatory changes may have on our operations cannot be determined at this time.

In addition, Western is subject to litigation incidental to our business, the outcome of which we do not anticipate will have a materially adverse effect on our financial condition and results of operations.

First Nations Land Claims

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

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

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

On April 1, 2011, the first modern treaty affecting the Company's tenures was brought into force. The Maa-nulth First Nations Treaty extinguished the Company's tenure rights on Maa-nulth Treaty Settlement Lands within TFL 44 and permanently reduced the tenure's AAC by 95,200 cubic metres. A treaty provision which created a new Protected Area inside of TFL 44 permanently reduced the AAC by another 8,800 cubic metres.

The Company concluded discussions with the Province on the magnitude of the treaty impacts on AAC, soft cost investments and downstream business in 2016. On October 21, 2016, the Company announced that the Province of BC had agreed to compensate Western in the amount of $14.0 million for the partial tenure extinguishment.

In January 2017, the Nuchatlaht First Nation filed a Notice of Civil Claim against Canada, the Province of BC and the Company, seeking a declaration of Aboriginal title to a claim area that encompasses the northern half of Nootka Island. The claim area encompasses The Company's Forest Licence A19231 and certain timber licences held by the Company. Each of the Province, Canada and the Company have filed a response to the Notice of Civil Claim and a case management judge has been appointed to oversee the proceedings. In December 2017, the Nuchatlaht First Nation filed an Amended Notice of Civil Claim that included significant changes to their original claim, and each of Canada, the Province and the Company then filed amended responses to Nuchatlaht's Amended Notice of Civil Claim. Since that time, little progress has been made toward advancing the case as the Province and Nuchatlaht have been engaged on a number of substantive and procedural issues.

On May 30, 2018, Western and several other parties, including Canada, the Province, Interfor, Marine Harvest and Cermaq, were served with a Notice of Civil Claim by the Dzawada'enuxw First Nation. The First Nation, located at Kingcome Inlet on the mainland coast, is seeking a declaration of Aboriginal title over an area that includes two Western Timber Licenses and TFL 39 block 3. The claim is unique in that the First Nation seeks a declaration of title over a marine area as well as land, and appears to have been strategically filed in advance of the Province making a decision on renewal of fish farm tenures in the Broughton Archipelago area. Dzawada'enuxw's legal counsel has agreed to not require Western to file a Response to Civil Claim at this time.

In November 2019, the Wei Wai Kum First Nation filed a petition with the BC Supreme Court against the Province of BC regarding its decision to offer the Company a replacement tenure for TFL 25. The Wei Wai Kum First Nation claim that the Province did not adequately consult and sufficiently accommodate them in relation to the Province's decision to offer a replacement tenure. Wei Wai Kum First Nation's counsel has granted the Province and Western an extension to the period of time to respond to the Petition and no fixed time limit has been set at this time.

In July 2013, the Ehattesaht First Nation filed a petition with the BC Supreme Court against the Province of BC regarding a decision of the Crown on the amount of unharvested volume in TFL 19 from the 2007 to 2011 cut control period. The Ehattesaht claimed the Crown did not adequately consult them about the decision and that additional volume must be made available to them based upon their asserted territory, rights, and economic interests. In 2014, the court ruled in favor of the Ehattesaht requiring further consultation on unharvested volume. In 2016, the Province advised Western that it would be awarding the unharvested volume, through separate forest licences, to the Ehattesaht and Mowachaht/Muchalaht First Nations. In order to minimize the potential impact of these new licences on its ongoing operations in TFL 19, Western continues to engage with the Ehattesaht and Mowachaht/Muchalaht First Nations to find mutually beneficial solutions.

In January 2008, the Ditidaht First Nation commenced litigation in the BC Supreme Court against the Province of BC, Canada, certain other First Nations and two forestry companies, including Western, seeking amongst other things declarations of aboriginal title and rights in areas of Vancouver Island that include areas covered by timber tenures held by the Company and declarations that provincial forestry legislation and the Company's timber tenures are of no force or effect on the claimed aboriginal title lands. In March 2013, Ditidaht and the BC Government entered an Incremental Treaty Agreement (the "ITA") which included Ditidaht agreement to not initiate or proceed with litigation against the Crown for land dispositions and land use authorizations during the term of the ITA, subject to the Province complying with consultation processes established under existing provincial policies and procedures. Consequently, unless the ITA is terminated in accordance with its provisions, this litigation will not be further pursued by Ditidaht.

In April 2008, the Kwakiutl First Nation commenced litigation in the BC Supreme Court against the Province of BC, Western and Canada, seeking, amongst other things, orders to set aside the Province's decision to remove Western's private lands from TFL 6 and the Province's approval of the Company's Forest Stewardship Plan ("FSP") on the Crown lands within their area of interest, based on alleged infringements of their treaty rights and unextinguished aboriginal title and rights. This case was decided in June 2013, with the court upholding the Private Land withdrawal from TFL 6 and also the decision to extend the term of our FSP. The Crown was found to have an ongoing duty to consult the Kwakiutl in good faith and to seek accommodations regarding their claim of unextinguished Aboriginal rights, title and interests in respect of the Kwakiutl traditional territory. In 2015, the BC Court of Appeal ruled on the Crown's appeal of the decision, finding that the Province breached its duty to consult and owed Kwakiutl a meaningful consultation process respecting its treaty rights and claims to Aboriginal rights and title.

Other treaty and government-to-government processes involving the 'Namgis, Ditidaht, Snuneymuxw, Heiltsuk, Hupacasath, K'ómoks, and Wuikinuxv First Nations are well advanced and may lead to agreements impacting Western in 2020. In October 2018, the Province and shíshálh Nation signed the Foundation Agreement which includes a shared-decision making process for forestry-related decisions. It is expected that through these and other settlement processes the Province may seek to remove areas from the Company's various forest tenures.

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

In addition to the implementation of Bill 41 (see "*Risks and Uncertainties – Regulatory Risks*"), current Provincial government 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 consultation with First Nations. This policy is reflected in the terms of our timber tenures, which provide that the MFLNRORD may vary or refuse to issue cutting permits in respect of a timber tenure if it is determined by a court that the forestry operation would unreasonably interfere with Aboriginal rights or title. First Nations have, at times, sought to restrict the Province from granting or replacing forest tenures and other operating authorizations or from approving forest management plans on Crown lands without full consultation and accommodation or their consent if these decisions could affect lands claimed by them. There can be no assurance that denial of required approvals for, or changes to the terms of our timber tenures, other operating authorizations or forest management plans as a consequence of such consultation or action will not have an adverse effect on our financial condition or results of operations.

Softwood Lumber Dispute

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

The twelve-month standstill period of the SLA, which precluded the US from bringing trade action against Canadian softwood lumber producers, expired October 12, 2016. On November 25, 2016, the US Lumber Coalition petitioned the DoC and the USITC seeking CVD and AD on Canadian softwood lumber shipments to the US.

On January 6, 2017, the ITC concluded that there was "reasonable indication" that softwood lumber products from Canada materially injured US producers; and, as a result, the DoC continued its ongoing CVD and AD investigations on these products.

On April 24, 2017, the DoC announced a preliminary countervailing duty of 19.88% for "all other" Canadian lumber producers including Western, effective April 28, 2017, and on June 26, 2017, the DoC announced a preliminary "all other" anti-dumping duty rate of 6.87% effective June 30, 2017. The DoC also made preliminary determinations on critical circumstances in April that resulted in 90-day retroactive application of countervailing duty from January 28 to April 27, 2017, and anti-dumping duty from April 1 to June 29, 2017.

The preliminary countervailing duties were applicable through August 25, 2017, after which they were suspended pending final determinations by the DoC and the ITC. On November 2, 2017, the DoC announced final determinations in its countervailing duty and anti-dumping duty investigations, concluding that critical circumstances did not exist for countervailing duty, but did exist for anti-dumping duty.

On December 7, 2017, the ITC announced a final injury determination, voting that exports of softwood lumber from Canada injured US producers. Concurrently, the ITC lowered the final countervailing duty rate to 14.19% and lowered the final antidumping duty rate to 6.04%, for “all other” Canadian lumber producers including Western, and concluded that critical circumstances did not exist for AD. The final rates are effective December 28, 2017.

On January 3, 2018, the DoC published amended final determinations, resulting in reduced, final CVD and AD rates of 14.19% and 6.04% respectively for “all other” Canadian lumber producers including Western.

On February 3, 2020, the DoC issued preliminary revised rates in the CVD and AD first administrative review of shipments for the years ended December 31, 2017 and 2018. The preliminary revised CVD rate was set at 6.71% and 6.55%, for 2017 and 2018, respectively, while the preliminary revised AD rate was set at 1.66% for both 2017 and 2018. The DoC may revise these rates between preliminary and the final determination expected in August 2020. Cash deposits continue at the rates published on January 3, 2018 until the final determinations are published, at which time the 2018 rate will apply on lumber shipments to the US.

In May 2018, we filed a NAFTA challenge to contest the ITC’s finding that goods manufactured from Cedar (including WRC, Yellow Cedar and Redwood species) were not a separate product group from lumber manufactured from other softwood species. Rebuttal briefs from the US Lumber Coalition and USITC were received in October 2018 and we filed our response in late 2018, which was subsequently presented to a NAFTA hearing panel in May 2019. Unfortunately, in September 2019 the NAFTA panel chose not to remand our separate-like product challenge back to the USITC. The lack of remand effectively ends our ability to challenge the USITC’s finding that WRC and Yellow Cedar products are not a distinct product group, or interchangeable in their use, from commodity lumber.

On September 4, 2019, the NAFTA panel remanded the Canadian government’s injury case back to the USITC. On December 19, 2019 the USITC reaffirmed its determination that softwood lumber products from Canada materially injured US producers. Therefore, we expect the Canadian government to contest the USITC’s finding and for the remand process to be ongoing. On April 9, 2019, a World Trade Organization (“WTO”) panel ruled on certain matters relating to the application of softwood lumber AD, concluding that the US violated international trade rules in the way it calculated AD duties. Included in the ruling, the WTO panel allowed the US to use "zeroing" in its calculation of AD, which Canada appealed in June 2019. The practice of zeroing had previously been disallowed by the WTO with regard to softwood lumber. The final determination of AD is subject to additional appeals from both the US and Canada.

Including wholesale lumber shipments, our sales to the US market represents approximately 27% of Western’s total revenue under normal operating conditions. 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.

This dispute may have an adverse impact on our financial condition and could also result in increased costs resulting from the administrative burden of such proceedings. It is unclear at this time when any duty amounts paid will be recovered or if amounts paid in excess of the amended final rates will be refunded.

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

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

Our fibre supply requirements in the US are currently met from a broad range of sources, including Federal and State lands, from private landowners and open market purchases, which are subject to log availability and based on market prices. Changes in the log markets in which we operate, including the price, quality or availability of log supply, may increase the costs of log purchases which could adversely affect our results. In addition, weather-related issues can restrict timely access to log supply.

Stumpage Fees

Stumpage is the fee that the Province charges forest companies for timber harvested from Crown land in BC. Approximately 95% of the timber we harvest is from Crown land. Stumpage is set using the Coast version of the Market Pricing System ("MPS"). MPS uses the winning bids and stand characteristics of timber sold through British Columbia Timber Sales ("BCTS") auctions to develop regression equations that predict the market (i.e. auction) value of Crown timber harvested under long-term tenures. The auction value is then adjusted to reflect costs that tenure holders incur and that BCTS expends on behalf of bidders. These costs, like forest planning and administration and silviculture, are referred to as 'Tenure Obligation Adjustments'. Coastal MPS are updated periodically to reflect recent sale data and costs. The most recent update occurred on December 15, 2019. Stumpage rates are also adjusted quarterly to reflect changes in log prices.

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

Pulp and Paper Market Variability

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

Reliance on Directors, Management and Other Key Personnel

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

Information Technology Security

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

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

Variable Operating Performance, Product Pricing and Demand Levels

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

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

Product demand is influenced to a significant degree by economic activity at the global level. Additionally, although costs may increase, customers may not accept related price increases for those products. We are not able to predict with certainty market conditions and prices for our products. Western's results of operations depend upon the prices we receive for lumber, logs and chips, and deterioration in prices of, or demand for, these products could have a material adverse effect on our financial condition or results of operations. We cannot provide any assurance or prediction as to the timing and extent of any price changes. On an annualized basis, with active operations, and based on current operating metrics, we estimate that operating earnings would increase or decrease by approximately $9 million for each incremental price increase or decrease, respectively, of $10 per thousand board feet of lumber.

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

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

Forest Resource Risk, Natural Catastrophes and Climate Change

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

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

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

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

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

Environmental Regulation

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

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

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

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

Long-Term Competition

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

International Business and Risks of Exchange Rate Fluctuations

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

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

Depending on product mix, destination and exchange rates, between 45% and 55% of our total product sales are denominated in USD and between 4% and 8% in JPY, while most operating costs and expenses are incurred in CAD, with small portions in USD and JPY. The Company's functional currency is the CAD and financial results are reported in CAD. Significant variations in relative currency values, particularly significant changes in the value of the CAD relative to the USD, have had, and in the future could have, a material impact on our operating earnings and cash flows. We estimate that an increase or decrease of 1% in the value of the CAD compared to the USD and JPY would decrease or increase annual operating earnings, under normal operating conditions, by approximately $4.3 million, and $0.4 million, respectively.

Long-term Fibre Supply Agreements

The Company has a number of long-term commitments to supply chip fibre, saw logs and pulp logs to third parties. Certain of these fibre supply agreements have minimum volume requirements. A failure to supply the minimum volumes may result in additional costs or deferred obligations.

Safety

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

Impact of Mountain Pine Beetle and Spruce Beetle Infestation

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

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

Continuation of the Dividend Program

We declared and paid total quarterly cash dividends of $0.09 per outstanding common share during the four quarters ended December 31, 2019. Any decision to declare and pay dividends in the future will be made at the discretion of our Board of Directors, after taking into account our operating results, financial condition, cash requirements, financing agreement restrictions and other factors our Board may deem relevant. We may be unable or may elect not to continue to declare and pay dividends, even if necessary financial conditions are met and sufficient cash is available for distribution.

Evaluation of Disclosure Controls and Procedures

As required by National Instrument 52-109, *Certification of Disclosure in Issuers' Annual and Interim Filings*, Western conducted an evaluation of the effectiveness of the disclosure controls and procedures and the system of internal control over financial reporting based on the "Internal Control – Integrated Framework" issued by the Committee of Sponsoring Organizations of the Treadway Commission. Based on this evaluation, management concluded that the Company's system of internal control over financial reporting was effective as at December 31, 2019. The evaluation was carried out under the supervision and with the participation of the Chief Executive Officer ("CEO") and the Chief Financial Officer ("CFO"). Based on the evaluation, Western's CEO and CFO concluded that the Company's disclosure controls and procedures are effective in providing reasonable assurance that material information relating to Western and its consolidated subsidiaries is made known to them by others within those entities, particularly during the period in which the annual filings are being prepared. In addition, Western's CEO and CFO concluded that the Company's internal controls over financial reporting are effective in providing reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for Western and its consolidated subsidiaries for the period in which the annual filings are being prepared.

The CEO and CFO confirm that there were no changes in the controls which materially affected, or are reasonably likely to materially affect, the Company's internal control over financial reporting during the year ended December 31, 2019.

There have been changes in the Company's internal controls over financial reporting ("ICFR") during the second quarter of 2019 resulting from the Company's implementation of a new enterprise resource planning system ("ERP"); however, there have been no changes in the Company's ICFR in the year ended December 31, 2019 that have materially affected, or are reasonably likely to materially affect, its ICFR.

During the ERP implementation, the Company's internal controls were maintained or supplemented by controls added during the system implementation and related business process improvements. The Company performed fulsome system conversion testing to ensure that prior period balances were translated into the new system completely and accurately.

Outstanding Share Data

As of February 11, 2020, there were 375,197,166 common shares of the Company issued and outstanding.

We have reserved 30,000,000 of our Shares for issuance upon the exercise of options granted under our incentive stock option plan. During the year ended December 31, 2019, 2,487,950 options were granted, 600,000 previously granted options were exercised and 796,178 options were forfeited. As of February 11, 2019, 13,057,129 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)			2019					2018			
		2019	**Q4**	**Q3**	**Q2**	**Q1**	**2018**	**Q4**	**Q3**	**Q2**	**Q1**
Average Exchange Rate – USD to CAD		**1.327**	1.320	1.321	1.337	1.329	**1.296**	1.322	1.307	1.291	1.265
Average Exchange Rate – CAD to USD		**0.754**	0.758	0.757	0.748	0.752	**0.771**	0.756	0.765	0.775	0.791
Financial Performance											
Revenue											
Lumber		**$ 628.3**	$ 66.1	$ 109.7	$ 233.6	$ 218.9	**$ 952.9**	$ 230.9	$ 238.2	$ 255.6	$ 228.2
Logs		**144.0**	12.1	27.4	63.3	41.2	**160.0**	36.2	33.6	49.0	41.2
By-products		**35.4**	1.9	4.5	13.4	15.6	**83.8**	17.7	20.7	23.2	22.2
Total revenue		**$ 807.7**	$ 80.1	$ 141.6	$ 310.3	$ 275.7	**$ 1,196.7**	$ 284.8	$ 292.5	$ 327.8	$ 291.6
Adjusted EBITDA		**$ (1.5)**	$ (18.1)	$ (16.6)	$ 15.1	$ 18.1	**$ 143.5**	$ 18.0	$ 32.3	$ 50.2	$ 43.0
Adjusted EBITDA margin		**-0.2%**	-22.6%	-11.7%	4.9%	6.6%	**12.0%**	6.3%	11.0%	15.3%	14.7%
Earnings (loss) per share:											
Net income (loss), basic and diluted		**$ (0.12)**	$ (0.09)	$ (0.05)	$ -	$ -	**$ 0.18**	$ 0.02	$ 0.04	$ 0.07	$ 0.05
Operating Statistics											
Lumber[(1),(2)]											
Production	mmfbm	**491**	34	48	206	202	**864**	200	221	234	209
Shipments - Total	mmfbm	**548**	44	90	211	203	**880**	218	212	235	215
Price	$/mfbm	**$ 1,147**	$ 1,502	$ 1,219	$ 1,107	$ 1,078	**$ 1,083**	$ 1,059	$ 1,124	$ 1,088	$ 1,061
Logs[(3)]											
Net production	000 m^3	**2,214**	21	21	1,250	922	**4,327**	1,135	815	1,348	1,029
Saw log purchases	000 m^3	**564**	34	84	238	208	**979**	212	197	305	265
Log availability	000 m^3	**2,778**	55	105	1,488	1,130	**5,306**	1,347	1,012	1,653	1,294
Shipments	000 m^3	**1,286**	135	246	536	369	**1,509**	369	308	471	361
Price[(4)]	$/$m^3$	**$ 105**	$ 87	$ 110	$ 112	$ 112	**$ 106**	$ 98	$ 109	$ 104	$ 114
Share Repurchases and Dividends											
Shares repurchased (millions)		**8.9**	-	1.2	3.8	3.9	**11.7**	4.9	4.6	1.6	0.6
Shares repurchased		**$ 15.9**	$ -	$ 1.9	$ 6.6	$ 7.4	**$ 25.2**	$ 9.1	$ 10.4	$ 4.1	$ 1.6
Dividends paid		**$ 34.0**	$ 8.5	$ 8.4	$ 8.5	$ 8.6	**$ 34.4**	$ 8.7	$ 8.8	$ 8.9	$ 7.9

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

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

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

CONSOLIDATED FINANCIAL STATEMENTS

MANAGEMENT'S RESPONSIBILITY FOR FINANCIAL STATEMENTS

The Management of Western Forest Products Inc. ("Western" or the "Company") is responsible for the accompanying Consolidated Financial Statements and all other information in the Management's Discussion and Analysis. The Consolidated Financial Statements have been prepared by Management in accordance with International Financial Reporting Standards as issued by the International Accounting Standards Board and, where necessary, reflect Management's best estimates and judgements at this time. The financial information presented throughout the Management's Discussion and Analysis dated February 11, 2020 is consistent with that contained in the Consolidated Financial Statements.

Western maintains systems of internal accounting controls, policies and procedures to provide reasonable assurance as to the reliability of the financial records and the safeguarding of its assets. Management meets the objectives of internal accounting control on a cost-effective basis through the prudent selection and training of personnel, adoption and communication of appropriate policies, procedures and controls, and employment of an internal audit program.

The Board of Directors reviews through oversight of Management's responsibilities with respect to the Consolidated Financial Statements primarily through the activities of its Audit Committee, which is composed solely of independent directors of the Company. This Committee meets with Management and the Company's independent auditors, KPMG LLP, to review the Consolidated Financial Statements and recommend their approval by the Board of Directors. The Audit Committee is also responsible for making recommendations with respect to the appointment, remuneration and the terms of engagement of the Company's auditors. The Audit Committee also meets with the auditors, without the presence of Management, to discuss the results of the audit, related findings and their suggestions.

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

"Don Demens"	*"Stephen Williams"*
Don Demens	**Stephen Williams**
President & Chief Executive Officer	*Executive Vice President & Chief Financial Officer*

February 11, 2020

KPMG LLP
PO Box 10426 777 Dunsmuir Street
Vancouver BC V7Y 1K3
Canada
Telephone (604) 691-3000
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INDEPENDENT AUDITORS' REPORT

To the Shareholders of Western Forest Products Inc.

Opinion

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

– the consolidated statements of financial position as at December 31, 2019 and December 31, 2018

– the consolidated statements of comprehensive income (loss) for the years then ended

– the consolidated statements of changes in shareholders' equity (deficit) for the years then ended

– the consolidated statements of cash flows for the years then ended

– and notes to the consolidated financial statements, including a summary of significant accounting policies

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

In our opinion, the accompanying financial statements present fairly, in all material respects, the consolidated financial position of the Company as at December 31, 2019 and December 31, 2018, and its consolidated financial performance and its consolidated cash flows for the years then ended in accordance with International Financial Reporting Standards (IFRS).

Basis for Opinion

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

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

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

Other Information

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

- Management's Discussion and Analysis filed with the relevant Canadian Securities Commissions.
- Annual Report filed with the relevant Canadian Securities Commissions.

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

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

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

We have nothing to report in this regard.

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

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

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

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

Auditors' Responsibilities for the Audit of the Financial Statements

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

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

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

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

We also:

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

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

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

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

- Conclude on the appropriateness of management's use of the going concern basis of accounting and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the Company's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our auditors' report to the related disclosures in the financial statements or, if such disclosures are inadequate, to modify our opinion. Our conclusions are based on the audit evidence obtained up to the date of our auditors' report. However, future events or conditions may cause the Company to cease to continue as a going concern.

- Evaluate the overall presentation, structure and content of the financial statements, including the disclosures, and whether the financial statements represent the underlying transactions and events in a manner that achieves fair presentation.

- Communicate with those charged with governance regarding, among other matters, the planned scope and timing of the audit and significant audit findings, including any significant deficiencies in internal control that we identify during our audit.

- Provide those charged with governance with a statement that we have complied with relevant ethical requirements regarding independence, and communicate with them all relationships and other matters that may reasonably be thought to bear on our independence, and where applicable, related safeguards.

KPMG LLP

Chartered Professional Accountants

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

Vancouver, Canada
February 11, 2020

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

	December 31, 2019	December 31, 2018
Assets		
Current assets:		
Cash and cash equivalents	$ 2.1	$ 8.4
Trade and other receivables	23.4	91.3
Inventory (Note 4)	132.0	174.9
Prepaid expenses and other assets	14.7	23.3
Income taxes receivable (Note 11)	16.7	-
	188.9	297.9
Non-current assets:		
Property, plant and equipment (Note 5)	414.9	369.9
Timber licenses (Note 6)	109.2	113.2
Biological assets (Note 7)	56.0	58.3
Other assets (Note 8)	13.4	15.8
Deferred income tax assets (Note 11)	0.1	0.7
	$ 782.5	$ 855.8
Liabilities and Equity		
Current liabilities:		
Accounts payable and accrued liabilities	$ 35.0	$ 119.2
Income taxes payable (Note 11)	-	13.5
Current portion of lease liabilities (Note 10)	4.9	-
Reforestation obligation (Note 13)	8.7	10.0
	48.6	142.7
Non-current liabilities:		
Long-term debt (Note 9)	113.4	6.0
Long-term lease liabilities (Note 10)	15.0	-
Reforestation obligation (Note 13)	14.7	15.7
Deferred income tax liabilities (Note 11)	37.0	40.3
Other liabilities (Note 12)	18.8	23.8
Deferred revenue (Note 25(b))	52.4	54.4
	299.9	282.9
Equity:		
Share capital (Note 14)	479.9	491.1
Contributed surplus	9.6	9.1
Translation reserve	(0.9)	-
Retained earnings (deficit)	(6.8)	72.7
Total equity attributable to equity shareholders of the Company	481.8	572.9
Non-controlling interest (Note 28)	0.8	-
	482.6	572.9
	$ 782.5	$ 855.8

Commitments and contingencies (Note 18)
Subsequent event (Note 18(b))
See accompanying notes to these consolidated financial statements.

Approved on behalf of the Board:

"Michael T. Waites"
Chair

"Don Demens"
President & Chief Executive Officer

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

	Years ended December 31, 2019	2018
Revenue (Note 25)	$ 807.7	$ 1,196.7
Costs and expenses:		
Cost of goods sold	731.4	927.7
Freight	64.1	90.6
Export tax (Note 18)	27.8	43.0
Selling and administration	31.1	32.0
	854.4	1,093.3
Operating income (loss) prior to restructuring and other items	(46.7)	103.4
Operating restructuring items (Note 23)	(3.5)	(4.8)
Other income (expense) (Note 21)	(5.4)	(1.1)
Operating income (loss)	(55.6)	97.5
Finance costs (Note 22)	(7.8)	(2.7)
Income (loss) before income taxes	(63.4)	94.8
Current income tax (expense) recovery (Note 11)	13.0	(14.3)
Deferred income tax (expense) recovery (Note 11)	3.7	(11.3)
	16.7	(25.6)
Net income (loss)	(46.7)	69.2
Net income (loss) attributable to equity shareholders of the Company	(46.3)	69.2
Net income (loss) attributable to non-controlling interest (Note 28)	(0.4)	-
	(46.7)	69.2
Other comprehensive income (loss)		
Items that will not be reclassified to profit or loss:		
Defined benefit plan actuarial gain (loss) (Note 19)	1.0	(0.7)
Income tax (expense) recovery on other comprehensive gain (loss) (Note 11)	(0.3)	0.2
Total items that will not be reclassified to profit or loss	0.7	(0.5)
Items that may be reclassified subsequently to profit or loss:		
Foreign exchange translation of foreign operations	(0.9)	-
Total comprehensive income (loss)	$ (46.9)	$ 68.7
Net income (loss) per share (in dollars) (Note 16)		
Basic and diluted earnings (loss) per share	$ (0.12)	$ 0.18
Weighted average number of common shares outstanding (thousands)		
Basic	377,633	392,333
Diluted	379,195	396,107

See accompanying notes to these consolidated financial statements.

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

	Share Capital	Contributed Surplus	Translation Reserve	Retained Earnings (Deficit)	Non-controlling Interest	**Total Equity**
Balance at December 31, 2017	$ 505.5	$ 8.7	$ -	$ 48.5	$ -	$ 562.7
Net income	-	-	-	69.2	-	69.2
Other comprehensive loss:	-					
Defined benefit plan actuarial loss recognized	-	-	-	(0.7)	-	(0.7)
Income tax recovery on other comprehensive loss	-	-	-	0.2	-	0.2
Total comprehensive income	-	-	-	68.7	-	68.7
Share-based payment transactions recognized in equity	-	0.8	-	-	-	0.8
Exercise of stock options	0.6	(0.4)	-	-	-	0.2
Repurchase of shares	(15.0)	-	-	(10.2)	-	(25.2)
Dividends	-	-	-	(34.3)	-	(34.3)
Total transactions with owners, recorded directly in equity	(14.4)	0.4	-	(44.5)	-	(58.5)
Balance at December 31, 2018	$ 491.1	$ 9.1	$ -	$ 72.7	$ -	$ 572.9

	Share Capital	Contributed Surplus	Translation Reserve	Retained Earnings (Deficit)	Non-controlling Interest	**Total Equity**
Balance at December 31, 2018	$ 491.1	$ 9.1	$ -	$ 72.7	$ -	$ 572.9
Net loss	-	-	-	(46.3)	(0.4)	(46.7)
Other comprehensive income:						
Defined benefit plan actuarial gain recognized	-	-	-	1.0	-	1.0
Income tax expense on other comprehensive income	-	-	-	(0.3)	-	(0.3)
Foreign exchange translation of foreign operations	-	-	(0.9)	-	-	(0.9)
Total comprehensive income (loss)	-	-	(0.9)	(45.6)	(0.4)	(46.9)
Share-based payment transactions recognized in equity (Note 14)	-	0.6	-	-	-	0.6
Non-controlling interest (Note 28)	-	-	-	5.0	1.2	6.2
Exercise of stock options (Note 14)	0.1	(0.1)	-	-	-	-
Repurchase of shares (Note 14)	(11.3)	-	-	(4.9)	-	(16.2)
Dividends	-	-	-	(34.0)	-	(34.0)
Total transactions with owners, recorded directly in equity	(11.2)	0.5	-	(33.9)	1.2	(43.4)
Balance at December 31, 2019	$ 479.9	$ 9.6	$ (0.9)	$ (6.8)	$ 0.8	$ 482.6

See accompanying notes to these consolidated financial statements.

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

	Years ended December 31, 2019	2018
Cash provided by (used in):		
Operating activities:		
Net income (loss)	$ (46.7)	$ 69.2
Items not involving cash:		
Amortization of property, plant and equipment (Note 5)	41.4	36.2
Amortization of timber licenses (Note 6)	4.0	4.0
Loss (gain) on disposal of assets	0.7	(0.5)
Change in fair value of biological assets (Note 7)	2.3	(0.1)
Change in reforestation obligation (Note 13)	(2.2)	0.4
Amortization of deferred revenue	(2.0)	(2.0)
Share-based compensation, including mark-to-market adjustment	(1.3)	1.7
Net finance costs	7.8	2.7
Income tax expense (recovery) (Note 11)	(16.7)	25.6
Change in pension liability (Note 19)	(2.8)	(3.1)
Export tax receivable	0.2	(0.3)
Other	2.8	(0.8)
Income taxes received (paid)	(17.0)	0.3
	(29.5)	133.3
Changes in non-cash working capital items:		
Trade and other receivables	67.9	(5.2)
Inventory	49.6	(22.9)
Prepaid expenses and other assets	11.9	(4.3)
Accounts payable and accrued liabilities	(89.4)	17.3
	40.0	(15.1)
	10.5	118.2
Investing activities:		
Additions to property, plant and equipment (Note 5)	(37.2)	(83.5)
Purchase of Arlington facility (Note 5)	-	(11.6)
Purchase of Columbia Vista (Note 29)	(37.7)	-
Proceeds from disposal of assets	4.7	3.1
Proceeds from disposition of minority interest in subsidiary, net (Note 28)	7.0	-
	(63.2)	(92.0)
Financing activities:		
Interest paid	(5.3)	(1.0)
Draw on long-term debt (Note 9)	107.1	7.0
Payment of lease liabilities (Note 10)	(5.1)	-
Repurchase of shares (Note 14)	(15.9)	(25.2)
Dividends	(34.0)	(34.3)
Proceeds from exercise of stock options, net (Note 14)	(0.4)	0.4
	46.4	(53.1)
Decrease in cash and cash equivalents	(6.3)	(26.9)
Cash and cash equivalents, beginning of year	8.4	35.3
Cash and cash equivalents, end of year	$ 2.1	$ 8.4

See accompanying notes to these consolidated financial statements.

1. Reporting entity

Western Forest Products Inc. ("Western" or the "Company") is an integrated softwood forest products company, incorporated and domiciled in Canada, operating primarily on the coast of British Columbia and Washington State. The address of the Company's head office is Suite 800 – 1055 West Georgia Street, Vancouver, British Columbia, Canada. The consolidated financial statements as at and for the years ended December 31, 2019 and 2018 comprise the financial results of the Company and its subsidiaries. The Company's primary business is the sale of lumber and logs, which includes timber harvesting, sawmilling logs into specialty lumber and value-added lumber remanufacturing. The Company is listed on the Toronto Stock Exchange ("TSX"), under the symbol WEF.

2. Basis of preparation

(a) Statement of compliance

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

The consolidated financial statements were authorized for issue by the Board of Directors on February 11, 2020.

(b) Basis of measurement

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

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

(c) Functional and presentation currency

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

(d) Basis of consolidation

(i) Subsidiaries

Subsidiaries are entities controlled by Western. Western controls an entity when it is exposed to, or has rights to, variable returns from its investment with the entity and has the ability to affect those returns through its power over the entity. The financial statements of subsidiaries are included in the consolidated financial statements from the date on which control commences until the date on which it ceases.

The principal wholly-owned operating subsidiaries of the Company at December 31, 2019 are Western Lumber Sales Limited, which sells into the United States ("US"), Western Forest Products Japan Ltd., which sells into Japan and WFP Partnerships Ltd, which holds assets of the US operation through indirect US subsidiaries, including Western Forest Products US LLC.

(ii) Interests in equity-accounted investees

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

2. Basis of preparation (continued)

(d) Basis of consolidation (continued)

(ii) Interests in equity-accounted investees (continued)

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

(iii) Transactions eliminated on consolidation

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

(e) Foreign currency translation

Foreign currency transactions are translated into Canadian dollars using the exchange rates prevailing at the dates of the transactions. Monetary assets and liabilities denominated in foreign currencies at the reporting date are translated into Canadian dollars at the exchange rate on that date. Foreign currency differences arising on translation are recognized in net income for the period. Non-monetary assets and liabilities that are measured in terms of historical cost in a foreign currency are translated using the exchange rate at the date of the transaction. Non-monetary assets and liabilities denominated in foreign currencies that are stated at fair value are translated into Canadian dollars at foreign exchange rates at the date the fair value was determined.

For each foreign operation, the Company determines the functional currency, and items included in the financial statements of each entity are measured using that functional currency. The Company's foreign operations are in the US and have the US dollar as the functional currency.

On consolidation, the assets and liabilities of foreign operations are translated into Canadian dollars using the rate of exchange in effect at the reporting date, and their statements of earnings and comprehensive earnings are translated using exchange rates in effect at the dates of the transactions. The exchange differences arising on translation for consolidation are recognized in other comprehensive income ("OCI"). On disposal of a foreign operation, the component of OCI relating to that particular foreign operation is recognized in net earnings.

(f) Use of estimates and judgements

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

(i) Judgements

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

2. Basis of preparation (continued)

(f) *Use of estimates and judgements (continued)*

(ii) *Assumptions and estimation uncertainties*

Information about assumptions and estimation uncertainties that have a significant risk of resulting in a material adjustment within the next financial year is included in the following notes:

Note 4	Measurement of net realizable value of inventories
Note 7	Measurement of fair value less costs to sell of standing timber
Note 10	Measurement of the present value of lease liabilities: key assumptions about the future lease payments and the discount rate used
Note 11	Recognition of deferred income tax assets: availability of future taxable profit against which carry forward tax losses can be used
Note 13	Measurement of the present value of reforestation obligations: key assumptions about the likelihood and magnitude of an outflow of resources
Note 15	Measurement of share-based payment transactions
Note 18	Recognition and measurement of provisions and contingencies: key assumptions about the likelihood and magnitude of an outflow of resources
Note 19	Measurement of defined benefit obligations: key actuarial assumptions, recognition of termination benefits

Measurement of fair values – certain accounting policies and disclosures require the measurement of fair values for both financial and non-financial assets and liabilities. An established framework is in place with respect to the measurement of fair values, including Level 3 fair values, on which significant unobservable inputs and valuation adjustments are reviewed regularly. Third party information is used to measure fair values. Management assesses the evidence obtained from the third parties to support the conclusion that such valuations meet the requirements of IFRS, including the level in the fair value hierarchy in which such valuations would be classified. Refer to Note 20 for more details.

When measuring the fair value of an asset or liability, Western uses market observable data to the extent possible. Fair values are categorized into different levels in a fair value hierarchy based on the inputs used in the valuation techniques as follows:

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

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

3. Significant accounting policies

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

(a) Cash and cash equivalents

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

(b) Impairment of non-financial assets

At each reporting date, the Company reviews the carrying amounts of its non-financial assets (other than biological assets, inventories and deferred income tax assets) to determine whether there is any indication of impairment. If any such indication exists, then the asset's recoverable amount is estimated.

For impairment testing, assets are grouped together into the smallest group of assets that generates cash inflows from continuing use that are largely independent of the cash inflows of other assets or cash generating units ("CGU"). The recoverable amount of an asset or CGU is the greater of its value in use and its fair value less costs to sell. Value in use is based on the estimated future cash flows, discounted to their present value using a pre-tax discount rate that reflects current market assessments of time value of money and risks specific to the asset or CGU.

Impairment losses are recognized in net income. They are allocated first to reduce the carrying amount of goodwill (if any) to the CGU, and then to reduce the carrying amounts of the other assets in the CGU on a pro-rata basis. An impairment loss in respect of goodwill is not reversed. For other assets, an impairment loss is reversed only to the extent that the asset's carrying amount does not exceed the carrying amount that would have been determined, net of depreciation or amortization, if no impairment loss had been recognized.

4. Inventory

Accounting policy

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

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

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

The cost of inventories includes expenditures incurred in acquiring the inventories, production or conversion costs and other costs incurred in bringing them to their existing location and condition.

The costs of lumber produced carry an average cost of production based on the species and facility where they were produced. The cost of logs produced carry an average cost of production based on the operation where the logs are produced, determined by log production costs divided by production volumes.

NRV is the estimated selling price in the ordinary course of business, less the estimated costs of completion and selling expenses. The NRV for logs designated for lumber production is determined on the basis of the logs being converted to lumber, and for the remaining logs it is based on market log prices.

The cost of logs transferred from biological assets (standing timber) is its fair value less costs to sell at the date of harvest.

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

4. Inventory (continued)

Supporting information

	December 31, 2019	December 31, 2018
Gross value of inventory		
Logs	$ 97.5	$ 125.7
Lumber	35.4	51.7
Supplies and other	15.6	13.1
	$ 148.5	$ 190.5
Provisions		
Logs	$ (11.0)	$ (8.8)
Lumber	(5.0)	(6.3)
Supplies and other	(0.5)	(0.5)
	$ (16.5)	$ (15.6)
Total carrying value of inventory	$ 132.0	$ 174.9

The carrying amount of inventory recorded at net realizable value was $47.5 million at December 31, 2019 (2018: $79.4 million), with the remaining inventory recorded at cost.

During 2019, $731.4 million (2018: $927.7 million) of inventory was charged to cost of sales which includes a $0.9 million increase (2018: $7.2 million increase) to the provision relating to inventory value write-downs.

5. Property, plant and equipment

Accounting policy

All items of property, plant and equipment are measured at cost, less accumulated depreciation and any accumulated impairment losses. Cost includes expenditures that are directly attributable to the acquisition of the asset. When parts of an item of property, plant and equipment have different useful lives, they are accounted for as separate items (major components) of property, plant and equipment. Subsequent costs are included in the asset's carrying amount or recognized as a separate asset, as appropriate, only when it is probable that future economic benefits associated with the item will flow to the Company and the cost of the item can be measured reliably.

Depreciation is based on the depreciable amount of an item of property, plant and equipment, which is the cost of an item, less its estimated residual value. Depreciation is calculated using the straight-line method and is recognized in net income over the estimated useful life of each component of an item of property, plant and equipment. Land is measured at cost and is not depreciated. The estimated useful lives for the current and comparative periods are as follows:

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

Residual values, depreciation methods and useful lives are reviewed, and adjusted if appropriate, at each reporting date.

Gains and losses on disposals are determined by comparing proceeds from disposal with the carrying amount of the item of property, plant and equipment and are recognized in net income for the period in which the disposal occurs.

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

5. Property, plant and equipment (continued)

Supporting information

On January 17, 2018, the Company completed the acquisition of the assets of a lumber distribution and processing centre in Arlington, Washington for a total purchase price, including related transaction costs, of $11.6 million.

Cost	Buildings & equipment	Logging roads	Land	Right of use assets	**Total**
Balance at January 1, 2018	$ 341.9	$ 191.9	$ 87.8	$ -	$ 621.6
Additions	70.6	12.9	-	-	83.5
Arlington facility	7.9	-	3.7	-	11.6
Disposals	(6.7)	-	(2.3)	-	(9.0)
Balance at December 31, 2018	413.7	204.8	89.2	-	707.7
Adoption of IFRS 16 (Note 10)	-	-	-	17.0	17.0
Additions	27.8	9.4	-	6.8	44.0
Columbia Vista assets (Note 29)	21.0	-	10.6	0.8	32.4
Disposals	(1.1)	-	(5.2)	(0.6)	(6.9)
Effect of movements in exchange rates	(0.6)	-	(0.3)	-	(0.9)
Balance at December 31, 2019	$ 460.8	$ 214.2	$ 94.3	$ 24.0	$ 793.3
Accumulated amortization and impairments					
Balance at January 1, 2018	$ 150.8	$ 156.8	$ 0.1	$ -	$ 307.7
Amortization	23.0	13.2	-	-	36.2
Disposals	(6.4)	-	-	-	(6.4)
Impairments	0.1	-	0.2	-	0.3
Balance at December 31, 2018	167.5	170.0	0.3	-	337.8
Amortization	26.6	10.0	-	4.8	41.4
Disposals	(0.9)	-	-	(0.2)	(1.1)
Impairments	0.3	-	-	-	0.3
Balance at December 31, 2019	$ 193.5	$ 180.0	$ 0.3	$ 4.6	$ 378.4
Carrying amounts					
At December 31, 2018	$ 246.2	$ 34.8	$ 88.9	$ -	$ 369.9
At December 31, 2019	$ 267.3	$ 34.2	$ 94.0	$ 19.4	$ 414.9

6. Timber licences

Accounting policy

Crown timber tenures are the contractual arrangements between the Company and the British Columbia Provincial Government whereby the Company gains the right to harvest timber. All of the Company's timber licences are accounted for as acquired finite lived timber licences. Accordingly, these are valued at their acquired cost less accumulated amortization and any accumulated impairment losses. Amortization is recognized on a straight-line basis over 40 years, the estimated useful life of these crown timber tenures. Amortization methods, useful lives and residual values are reviewed, and adjusted if appropriate, at each reporting date.

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

6. Timber licences (continued)

Supporting information

Cost	
Balance at December 31, 2018	$ 170.7
Balance at December 31, 2019	$ 170.7
Accumulated amortization	
Balance at January 1, 2018	$ 53.5
Amortization	4.0
Balance at December 31, 2018	$ 57.5
Amortization	4.0
Balance at December 31, 2019	$ 61.5
Carrying amounts	
At December 31, 2018	$ 113.2
At December 31, 2019	$ 109.2

7. Biological assets

Accounting policy

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

Supporting information

(a) Reconciliation of carrying amount

	Years ended December 31,	
	2019	2018
Carrying value, beginning of year	$ 58.3	$ 58.2
Change in fair value less costs to sell (Note 21)	(2.8)	-
Change in fair value due to growth and pricing	5.6	5.6
Harvested timber transferred to inventory	(5.1)	(5.5)
Carrying value, end of year	$ 56.0	$ 58.3

At December 31, 2019, private timberlands comprised an area of approximately 23,293 hectares (December 31, 2018: 23,293 hectares) of land owned by the Company; standing timber on these timberlands ranged from newly planted cut-blocks to mature forests available for harvest. During the year ended December 31, 2019, the Company harvested and scaled approximately 132,897 cubic metres (“m^3”) of logs from its private timberlands, which had a fair value less costs to sell of $115 per m^3 at the date of harvest (2018: 141,609 m^3 and $106 per m^3, respectively).

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

7. Biological assets (continued)

(b) Measurement of fair values

The table above reconciles the opening balances to the closing balances for Level 3 fair values. The change in fair value resulting from price and growth is reflected in cost of goods sold. The fair value measurements for the Company's standing timber of $56.0 million has been categorized as Level 3 fair value based on the inputs to the valuation technique used as discussed below.

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

(c) Risk management strategies related to biological assets

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

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

8. Other assets

	December 31, 2019	December 31, 2018
Investments	$ 9.0	$ 11.1
Export tax receivable (Note 18(b))	3.6	3.8
Deferred transaction costs	0.8	0.9
	$ 13.4	$ 15.8

9. Long-term debt

Accounting policy

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

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

Supporting information

On August 8, 2018, the Company entered into a new syndicated Credit Facility (the "Credit Facility"). The Credit Facility provides for a maximum borrowing amount of $250 million, has a maturity date of August 1, 2022, and includes an accordion feature which allows the Company to increase the aggregate amount available to $350 million, subject to lender approval.

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

The Credit Facility is secured by a general security agreement, excluding specified properties and their related assets, and is subject to certain financial covenants, including maximum debt to total capitalization ratios (see Note 17).

At December 31, 2019, $114.1 million was outstanding under the Company's Credit Facility. The interest rate for the Credit Facility was 5.45% at December 31, 2019 (2018: 4.65%). The Company was in compliance with its financial covenants at December 31, 2019.

	December 31, 2019	December 31, 2018
Long-term debt	$ 114.1	$ 7.0
Less transaction costs	(0.7)	(1.0)
	$ 113.4	$ 6.0
Available	$ 250.0	$ 250.0
Drawings	(114.1)	(7.0)
Outstanding letters of credit	(1.1)	(1.0)
Unused portion of Credit Facility	$ 134.8	$ 242.0

10. Lease liabilities

Accounting policy

IFRS 16, Leases ("IFRS 16") - Policy application from January 1, 2019

When a contract is entered into, the Company will assess if a contract is, or contains, a lease. A contract is, or contains, a lease if the contract conveys the right to control the use of an identified asset for a period of time in exchange for consideration.

This policy is applied to contracts entered into, or changed, on or after January 1, 2019. The Company adopted IFRS 16 on January 1, 2019 using a modified retrospective approach, whereby the cumulative effect of initially applying the standard was recognized with no adjustment to retained earnings at January 1, 2019. The comparative information presented for 2018 has not been restated and continues to be reported under IAS 17, Leases, ("IAS 17") and related interpretations.

The Company applied certain practical expedients on adoption of IFRS 16, allowing for the use of hindsight to assess the lease term for contracts with extension options, the exclusion of initial direct costs from measurement of the right of use asset and the exclusion of leases with a term of less than one year remaining at the transition date.

As a lessee

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

10. Lease liabilities (continued)

The right of use asset is depreciated using the straight-line method from the lease commencement date to the earlier of the end of the lease term or the end of the useful life of the right of use asset. The estimated useful lives of right of use assets are determined in the same manner as those of property plant and equipment. Right of use assets are adjusted for impairments and/or re-measurements of the lease liability.

At the lease commencement date, the lease liability is measured at the present value of the future lease payments. The lease payments are discounted using the interest rate implicit in the lease, or, if that rate cannot be readily determined, the Company's incremental borrowing rate. Generally, the Company uses its incremental borrowing rate as the discount rate.

Lease payments included in the measurement of the lease liability consist of:

- fixed payments, including in-substance fixed payments;
- variable lease payments that depend on an index or a rate, initially measured using the index or rate as at the commencement date;
- amounts expected to be payable under residual value guarantees; and
- the exercise price of a purchase option that the Company is reasonably certain to exercise, and penalties for terminating the lease, if the lease term reflects the lessee exercising an option to terminate early.

The lease liability is measured at amortized cost using the effective interest method. The lease liability is re-measured when there is a change in future lease payments due to a change in an index or rate, a change in the Company's estimate of an amount payable under residual value guarantee, or if there is a change in the assessment of whether the Company will exercise a purchase, termination or extension option. When the lease liability is re-measured, a corresponding adjustment is made to the right of use asset, or recognized in net income if the carrying amount of the right of use asset has been reduced to zero.

The Company presents right of use assets in property, plant and equipment and lease liabilities separately on the consolidated statement of financial position.

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

Under IAS 17 - Policy application before January 1, 2019

In the comparative period, leases of property, plant and equipment that transfer to the Company substantially all of the risks and rewards of ownership are classified as finance leases. The leased assets are measured initially at an amount equal to the lower of their fair value and the present value of the minimum lease payments. Subsequent to initial recognition, the assets are accounted for in accordance with the accounting policy applicable to that asset.

Assets held under other leases are classified as operating leases and are not recognized in the Company's statement of financial position.

Payments made under operating leases are recognized in profit or loss on a straight-line basis over the term of the lease. Lease incentives received are recognized as an integral part of the total lease expense, over the term of the lease. Minimum lease payments made under finance leases are apportioned between the finance expense and the reduction of the outstanding liability. The finance expense is allocated to each period during the lease term so as to produce a constant periodic rate of interest on the remaining balance of the liability.

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

10. Lease liabilities (continued)

As a lessor

When the Company acts as a lessor, it determines at the inception of the lease whether the lease is a finance or operating lease. Leases that transfer to the Company substantially all of the risks and rewards of ownership are classified as finance leases. If the risks and rewards of ownership are not transferred, the lease is classified as an operating lease.

The Company recognizes lease payments received under operating leases as income on a straight-line basis over the lease term as part of other income.

The accounting policies as a lessor in the comparative period are consistent with IFRS 16.

Supporting information

Changes in the lease liabilities are as follows:

		December 31, 2019
Lease liabilities, beginning of year	$	-
At adoption of IFRS 16		17.0
Additions		7.6
Disposals		(0.4)
Finace costs		0.8
Lease payments		(5.1)
Lease liabilities, end of year		19.9
Less current portion		4.9
	$	15.0

The weighted average incremental borrowing rate used to determine lease obligations at adoption and during the year ended December 31, 2019 was approximately 4.5%. In its annual consolidated financial statements as at and for the year ended December 31, 2018, the Company disclosed $19.7 million of operating lease commitments. These, discounted at the incremental borrowing rate as at January 1, 2019, resulted in an opening lease liability of $17.0 million.

In addition to the above, the Company recognized an expense of $2.6 million during the year ended December 31, 2019, relating to short term and low value lease payments that were previously treated as rental agreements.

11. Income taxes

Accounting policy

Income tax expense comprises current and deferred income tax. It is recognized in net income for the period except to the extent that it relates to items recognized either in other comprehensive income or directly in equity, in which case it is recognized in other comprehensive income or equity, respectively.

(a) Current tax

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

Current income tax assets and liabilities are offset only if certain criteria are met.

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

11. Income taxes (continued)

(b) Deferred income tax

Deferred income tax is recognized in respect of temporary differences arising between the tax bases of assets and liabilities and their carrying amounts in the consolidated financial statements. Deferred income tax is not recognized if it arises from initial recognition of an asset or liability in a transaction, other than a business combination, that at the time of the transaction affects neither accounting profit nor taxable profit.

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

Deferred income tax is measured at the rates that are expected to be applied to temporary differences when they reverse, using rates enacted or substantively enacted at the reporting date. Deferred income tax assets and liabilities are offset only if certain criteria are met.

Supporting information

	Years ended December 31, 2019	2018
Current tax expense (recovery)		
Current period	$ (13.0)	$ 14.3
Deferred income tax expense (recovery)		
Origination and reversal of temporary differences	(3.7)	11.3
Total income tax expense (recovery)	$ (16.7)	$ 25.6

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

	Years ended December 31, 2019	2018
Income tax expense (recovery) at the statutory rate of 27.00% (2018 - 27.00%)	$ (17.1)	$ 25.6
Difference in tax rates	0.6	0.2
Over (under) provided for in prior periods	(0.3)	0.2
Other permanent differences	(0.3)	-
Reinstatement of (use of) investment tax credits	0.4	(0.4)
Total tax expense (recovery) - 26.38% (2018 - 27.10%)	$ (16.7)	$ 25.6

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

11. Income taxes (continued)

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

	Opening Balance	Recognized in Profit or Loss	Recognized in Taxes Payable	Recognized in OCI & Equity	Ending Balance
For the Year ended December 31, 2019					
Deferred income tax assets					
Tax loss carry-forwards	$ 1.0	$ 7.2	$ -	$ (0.7)	$ 7.5
Employee future benefits obligation	5.4	(0.7)	-	(0.3)	4.4
Provisions and other	14.2	6.1	-	-	20.3
	20.6	12.6	-	(1.0)	32.2
Deferred income tax liabilities					
Intangible assets	(30.5)	(1.8)	-	-	(32.3)
Biological assets	(8.6)	1.0	-	-	(7.6)
Property, plant and equipment	(21.1)	(8.1)	-	-	(29.2)
	(60.2)	(8.9)	-	-	(69.1)
	$ (39.6)	$ 3.7	$ -	$ (1.0)	$ (36.9)
For the Year ended December 31, 2018					
Deferred income tax assets					
Tax loss carry-forwards	$ 11.9	$ (10.9)	$ -	$ -	$ 1.0
Employee future benefits obligation	6.0	(0.8)	-	0.2	5.4
Provisions and other	12.9	2.0	(0.7)	-	14.2
	30.8	(9.7)	(0.7)	0.2	20.6
Deferred income tax liabilities					
Intangible assets	(31.6)	1.1	-	-	(30.5)
Biological assets	(8.5)	(0.1)	-	-	(8.6)
Property, plant and equipment	(18.5)	(2.6)	-	-	(21.1)
	(58.6)	(1.6)	-	-	(60.2)
	$ (27.8)	$ (11.3)	$ (0.7)	$ 0.2	$ (39.6)

The Company has recognized deferred income tax assets in relation to unused tax losses that are available to carry forward against future taxable income. At December 31, 2019, the Company and its subsidiaries have unused non-capital tax losses carried forward totalling $5.2 million in the US (2018: $2.1 million) and $24.1 million in Canada (2018: $2.0 million), which can be used to reduce taxable income. The Company has unused capital losses carried forward of approximately $87.9 million (2018: $93.7 million) available to be utilized against future capital gains indefinitely.

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

	December 31, 2019	December 31, 2018
Temporary deductible differences	$ 21.1	$ 19.0
Capital loss carry-forwards	87.9	93.7
	$ 109.0	$ 112.7

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

12. Other liabilities

	December 31, 2019	December 31, 2018
Employee future benefits obligation (Note 19)	$ 15.3	$ 19.0
Environmental accruals	1.9	1.5
Performance share unit plan liabilities, non-current (Note 15(c))	0.2	1.8
Other	1.4	1.5
	$ 18.8	$ 23.8

13. Reforestation obligation

Accounting policy

The Company's provision for reforestation relates to the obligation for reforestation on Crown land and arises as timber is harvested. Reforestation on private timberlands is expensed as incurred. The Company recognizes a provision for reforestation at fair value in the period in which the legal obligation is incurred, with the fair value of the liability at the reporting date determined with reference to the present value of estimated future cash flows. The pre-tax discount rate used to determine the present value reflects current market assessments of the time value of money and the risks specific to the liability. The actual discount rate used reflects the current risk-free rate given that risks are incorporated into the future cash flow estimates.

In periods subsequent to the initial measurement, changes in the liability resulting from revisions to estimated future costs are recognized in cost of sales within net income for the period as they occur. Reforestation expense incurred on current production is included in production costs and the unwinding of discount, or accretion cost, is included in finance costs for the year.

Supporting information

Changes in the reforestation obligation are as follows:

	Years ended December 31, 2019	2018
Reforestation obligation, beginning of year	$ 25.7	$ 25.3
Reforestation provision charged	5.5	8.6
Reforestation expenditures	(8.0)	(8.5)
Unwind of discount	0.2	0.3
Reforestation obligation, end of year	23.4	25.7
Less current portion	8.7	10.0
	$ 14.7	$ 15.7

The reforestation expenditures are expected to occur over the next one to ten years and have been discounted at risk-free rates of 1.68% to 1.74% (2018: 1.86% to 1.97%). The total undiscounted amount of the estimated future expenditures required to settle the reforestation obligation at December 31, 2019 is $24.3 million (December 31, 2018: $26.7 million).

14. Share capital

Accounting policy

The Company's authorized capital consists of an unlimited number of common shares and an unlimited number of preferred shares. Common shares and preferred shares are classified as equity. Incremental costs directly attributable to the issue of new shares or options are shown in equity as a deduction from the proceeds, net of any tax effects.

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

14. Share capital (continued)

Supporting information

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

	Number of Common Shares		Amount
Balance at January 1, 2018	394,776,092	$	505.5
Exercise of stock options	660,000		0.6
Repurchase of shares	(11,695,573)		(15.0)
Balance at December 31, 2018	383,740,519	$	491.1
Exercise of stock options	330,000		0.1
Repurchase of shares	(8,873,353)		(11.3)
Balance at December 31, 2019	375,197,166	$	479.9

During the year ended December 31, 2019, cash dividends of $0.0225 per common share were paid for each of the quarters ended March 31, 2019, June 30, 2019, September 30, 2019 and December 31, 2019. An aggregate of $34.0 million (2018: $34.3 million) in dividends was paid to shareholders in 2019.

On August 2, 2019, the Company renewed a Normal Course Issuer Bid ("NCIB") permitting the purchase and cancellation up to 18,763,888 of the common shares or approximately 5% of the common shares issued and outstanding as of August 1, 2019. The NCIB expires on August 7, 2020.

In 2019, the Company repurchased 8,873,353 common shares under the NCIB (2018: 11,695,573) for $15.9 million at an average price of $1.79 per common share (2018: $25.2 million and $2.15, respectively), of which $11.0 million was charged to share capital and $4.9 million was charged to retained earnings (2018: $15.0 million and $10.2 million, respectively). In addition to the common shares repurchased under the NCIB, 270,000 options were exercised for the issuance of common shares on a cashless basis, resulting in a decrease in share capital of $0.3 million (2018: nil) (Note 15(a)).

15. Share-based compensation plans

Accounting policy

Stock options

The Company has established an incentive stock option plan (the "Option Plan") for eligible directors, officers and employees and accounts for these plans using the fair value method. The grant-date fair value of options is recognized as an employee expense, with a corresponding increase in contributed surplus, over the period that the individual becomes unconditionally entitled to the awards. When stock options are exercised, the cash consideration received from employees is credited to share capital, as is the previously calculated fair value included in contributed surplus.

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

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

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

15. Share-based compensation plans (continued)

Deferred share units and performance share units

The grant-date fair value of the amount payable to eligible directors, officers and employees in respect of Deferred Share Units ("DSUs"), which are cash-settled, is recognized as an employee expense with a corresponding increase in liabilities, over the period that the individuals become unconditionally entitled to payment.

The grant-date fair value of the amount payable to eligible officers and employees in respect of Performance Share Units ("PSUs"), which are cash-settled, is recognized as an employee expense with a corresponding increase in liabilities, over a three-year performance period.

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

Supporting information

(a) *Stock-option plan*

The Option Plan permits the granting of options to eligible participants to purchase up to an aggregate of 30,000,000 common shares. Each option is exercisable, subject to vesting terms of 20% per year and immediately upon a change in control of the Company, into one common share, subject to adjustments, at a price of not less than the closing price of the common shares on the TSX on the day immediately preceding the grant date. Options granted under the Option Plan expire a maximum of ten years from the date of the grant. All outstanding options are only exercisable when the share price has been equal to or exceeds $0.70 for the 60 consecutive days preceding the date of exercise on a volume weighted average price basis.

During the year ended December 31, 2019, the Company granted 2,487,950 options with a fair value of $0.9 million. Weighted average assumptions applied in the option pricing model included exercise price of $1.94, risk-free interest rate of 1.88%, a volatility rate of 31.86%, and an expected life of seven years.

The following table summarizes the change in options outstanding during the years ended December 31, 2019 and 2018:

	Year ended December 31, 2019			Year ended December 31, 2018		
	Number of Options	Weighted average exercise price		Number of Options	Weighted average exercise price	
Outstanding, beginning of year	11,965,357	$	1.73	11,718,483	$	1.56
Granted	2,487,950		1.94	1,235,788		2.74
Exercised	(600,000)		0.22	(660,000)		0.59
Forfeited	(796,178)		2.33	(328,914)		2.13
Outstanding, end of year	13,057,129	$	1.80	11,965,357	$	1.72

During the year ended December 31, 2019, 330,000 options were exercised for the issuance of common shares, and 270,000 options were exercised on a cashless basis.

Details of options outstanding under the Option Plan as at December 31, 2019 are as follows:

Exercise Price	Number outstanding December 31, 2019	Weighted average remaining option life (years)	Weighted average exercise price		Number exercisable December 31, 2019	Weighted average exercise price	
$0.22 - $0.96	3,250,000	2.2	$	0.93	3,250,000	$	0.93
$1.27 - $1.97	4,727,806	6.7		1.75	2,041,050		1.49
$2.09 - $2.75	5,079,323	5.9		2.39	3,315,515		2.39
	13,057,129	5.3	$	1.79	8,606,564	$	1.62

In 2019, the Company recorded equity-based compensation expense for these options of $0.6 million (2018: expense of $0.8 million), with a corresponding increase to contributed surplus.

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

15. Share-based compensation plans (continued)

(b) *Deferred share unit plan*

The Company has a DSU Plan for directors and designated executive officers. Directors may elect to take a portion of their fees in the form of DSUs and prior to January 1, 2015 executive officers could elect to take a portion of their annual incentive bonus in the form of DSUs. For directors, the number of DSUs allotted is determined by dividing the dollar portion of the quarterly fees a director elects to take in DSUs by the share price value on the fifth day following each quarter end. All DSU holders are entitled to DSU dividends, equivalent to the dividend they would have received if they held their DSUs as common shares. For dividends, the number of DSUs allotted is determined by dividing the total dollar value of the dividend each DSU holder would have received, by the closing share price on the dividend payment date.

Effective January 1, 2015, DSUs are only granted to non-executive directors per the amended DSU Plan.

	Year ended December 31, 2019		Year ended December 31, 2018	
	Number of DSU	Weighted average unit value	Number of DSU	Weighted average unit value
Outstanding, beginning of year	1,468,754	$ 1.32	1,282,219	$ 1.18
Granted	320,425	1.44	186,535	2.32
Redeemed	(49,488)	1.71	-	-
Outstanding, end of year	1,739,691	$ 1.33	1,468,754	$ 1.32

In 2019, the Company recorded equity-based compensation recovery for these DSUs of $0.9 million (2018: recovery of $0.6 million), with a corresponding decrease to accounts payable and accrued liabilities.

(c) *Performance share unit plan*

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

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

	Years ended December 31,	
	2019	2018
Outstanding, beginning of year	1,715,332	1,582,285
Granted	835,574	562,049
Redeemed	(577,130)	(429,002)
Forfeited	(120,961)	-
Outstanding, end of year	1,852,815	1,715,332

In 2019, the Company recorded equity-based compensation recovery for these PSUs of $0.9 million (2018: expense of $1.3 million), with a corresponding decrease to accounts payable and accrued liabilities and other liabilities.

16. Earnings per share

The Company presents basic and diluted earnings per share ("EPS") data for its common shares. Basic EPS is calculated by dividing the net income (loss) attributable to common shareholders of the Company by the weighted average number of shares outstanding during the period. Diluted EPS is determined by adjusting the net income attributable to the shareholders and the weighted average number of shares outstanding, for the effects of all dilutive potential shares, which comprise share options granted to employees and directors.

17. Capital requirements

The Company's strategy for managing capital is to maintain a capital position that provides financial flexibility and achieves growth with the objective of maximizing long-term shareholder value. Western's capital requirements typically include major new investments designed to increase net income and disbursements for other new equipment and ongoing enhancements, efficiency improvements, safety, and protection or extension of the life of equipment. Significant expenditures are also required to fund new capital roads allowing access to timber stands for harvesting purposes.

As at December 31, 2019, the Company had $114.1 million drawn in its debt facilities and a 18.8% net debt to capitalization ratio (2018: nil). Net debt is defined as long-term debt, less cash and cash equivalents. Capitalization comprises net debt and shareholders' equity.

Changes to the capital structure may be made as strategic opportunities arise. In order to maintain or adjust the capital structure, the Company may buy back shares, issue new shares, source new debt, or sell assets.

The Company has internal controls to ensure changes to the capital structure are properly reviewed and approved.

Beginning in 2013, the Company initiated a quarterly dividend program which is at the discretion of the Company's Board of Directors.

In the current year, the Company renewed an NCIB permitting the purchase and cancellation up to 18,763,888 common shares prior to August 7, 2020, and is at the discretion of the Company's Board of Directors.

Under the Credit Facility agreement, the Company is subject to certain financial covenants. As at December 31, 2019, the Company is in compliance with all financial covenants, and expects to be in compliance for the next 12 months.

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

There were no changes to the Company's approach to managing capital during the year.

18. Commitments and contingencies

(a) Key dates in the softwood lumber duty dispute

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

In the years 2016 through 2018 there were several announcements made by US Department of Commerce ("DoC") and the US International Trade Commission ("ITC") outlining rates on Countervailing ("CVD") and Anti-dumping duties ("AD") on Canadian softwood lumber shipments to the US. The Company disclosed these in its audited annual consolidated financial statements for the year ended December 31, 2018.

(b) US lumber duties and export tax

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

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

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

18. Commitments and contingencies (continued)

(b) US lumber duties and export tax (continued)

In the fourth quarter of 2017, the Company recorded an export tax recovery of $3.5 million arising from the difference between export duties paid at preliminary determination rates and the latest final duty rates. A corresponding receivable was recognized in other assets in the consolidated statement of financial position. This export tax receivable was $3.6 million at December 31, 2019 as a result of foreign exchange revaluation (December 31, 2018: $3.8 million). Incremental export duty recoveries from any future change in CVD and AD final rates will be netted against export tax expense and included in other assets.

On February 3, 2020, the DoC issued preliminary revised rates in the CVD and AD first administrative review of shipments for the years ended December 31, 2017 and 2018. The DoC may revise these rates between preliminary and the final determination expected in August 2020. Cash deposits continue at the combined duty rate of 20.23% until the final determinations are published, after which the 2018 rate will apply. The following table summarizes the cash deposit rates in effect and the preliminary revised rates published on February 3, 2020:

	Years ended December 31,		
	2019	2018	2017
Duty expense	$ 27.8	$ 43.0	$ 15.8
Cash deposit rate, CVD	14.19%	14.19%	14.19%
Cash deposit rate, AD	6.04%	6.04%	6.04%
Cash deposit rate, combined	20.23%	20.23%	20.23%
Preliminary revised rate, CVD		6.55%	6.71%
Preliminary revised rate, AD		1.66%	1.66%
Preliminary revised rate, combined		8.21%	8.37%

As at December 31, 2019, the Company had $90.9 million of cash on deposit with the US Department of Treasury in respect of these softwood lumber duties (December 31, 2018: $64.2 million).

(c) 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 not able to determine the outcome of these disputes no amounts have been accrued in these financial statements.

(d) Long-term fibre supply agreements

The Company recorded the price premium as deferred revenue and has granted a first charge over the acquired assets (including a tree farm licence with an allowable annual cut of 844,000 cubic metres, 4,771 hectares of private timberlands and other capital improvements and equipment) to secure certain of these obligations.

In addition, 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 volume, require the Company to conduct whole log chipping or sell saw logs, which could reduce log availability for our sawmill, source the deficiency from third parties at additional cost to the Company or pay the party to the fibre supply agreement a penalty calculated based on the provisions contained in the relevant agreement. Should Western take significant market related curtailments in its sawmills, the volume of chips produced is reduced and accordingly there is greater risk that the Company may not meet its contractual obligations, if it is not possible to secure replacement chips on the open market during that period.

Based on the exercise of force majeure provisions in connection with strike action by the United Steelworkers Local 1-1937, the Company has satisfied annual fibre commitments for the year ending December 31, 2019.

18. Commitments and contingencies (continued)

(e) Timber bond obligations

As a result of the Columbia Vista acquisition (Note 29), the Company assumed timber bond obligations, as a requirement to support certain US timber sales. As at December 31, 2019, the Company had outstanding bonds in the amount of $3.9 million (December 31, 2018: nil).

(f) Purchase commitments

As at December 31, 2019, the Company had contracts to acquire property, plant and equipment in the amount of $7.5 million (2018: nil). In addition, as at December 31, 2019, the Company had contractual commitments to purchase wholesale lumber totalling $8.7 million (2018: nil).

(g) Pension funding commitments

The Company is committed to making estimated annual special payments for its salaried pension plans of $2.6 million for 2020 and approximately $1.3 million per year on average for 2021 to 2033, or until such time as a new funding valuation may lead to a change in the amount of payments required.

19. Employee benefits

Accounting policy

(a) Termination benefits

Termination benefits are expensed at the earlier of when the Company can no longer withdraw the offer of those benefits and when the Company recognizes costs for a restructuring. If benefits are not expected to be settled wholly within twelve months of the reporting date they are discounted.

(b) Short-term employee benefits

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

(c) Employee future benefits

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

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

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

Remeasurements of the net defined benefit liability, which comprise actuarial gains and losses, the return on plan assets (excluding interest) and the effect of the asset ceiling (if any, excluding interest), are recognized immediately in other comprehensive income. The Company determines the net interest expense (income) on the net defined liability for the period by applying the discount rate used to measure the defined benefit obligation at the beginning of the annual period to the then-net defined liability, taking into account any changes in the net defined benefit liability during the period as a result of contributions and benefit payments. Net interest expense and other expenses related to defined benefit plans are recognized in net income.

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

19. Employee benefits (continued)

(c) Employee future benefits (continued)

When the benefits of a plan are changed or when a plan is curtailed, the resulting change in benefit that relates to past service or the gain or loss on curtailment is recognized immediately in net income. The Company recognizes gains and losses on settlement of a defined benefit plan when the settlement occurs. A defined contribution plan is a retirement plan under which the Company pays fixed contributions into a separate entity. For Western's defined contribution plan, the Company makes contributions to privately administered investment funds on behalf of the plan members. The Company has no further payment obligations once the contributions have been paid.

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

For hourly employees covered by forest industry union defined benefit pension plans, the Company's contributions as required under the collective agreements are charged to net income for the period.

Supporting information

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

	December 31, 2019		December 31, 2018	
	Salaried Pension Plans	Non-pension Plans	Salaried Pension Plans	Non-pension Plans
Plan assets:				
Fair value, beginning of year	$ 106.0	$ -	$ 112.5	$ -
Company contributions	3.2	0.3	3.7	0.2
Benefits and administrative expenses paid	(8.6)	(0.3)	(8.6)	(0.2)
Actual return on assets	12.5	-	(1.6)	-
Fair value, end of year	$ 113.1	$ -	$ 106.0	$ -
Accrued benefit obligation:				
Balance, beginning of year	$ 122.0	$ 3.0	$ 129.1	$ 4.8
Current service costs and administrative expenses	0.3	-	0.3	-
Benefits and administrative expenses paid	(8.6)	(0.3)	(8.6)	(0.2)
Interest cost	4.2	0.1	4.1	0.1
Actuarial loss (gain)	7.6	0.1	(2.9)	(1.7)
Balance, end of year	$ 125.5	$ 2.9	$ 122.0	$ 3.0
Deficit recognized in statement of financial position (Note 12)	$ (12.4)	$ (2.9)	$ (16.0)	$ (3.0)
Cumulative actuarial gains (losses), beginning of year	$ (37.1)	$ 3.0	$ (34.7)	$ 1.3
Actuarial gains (losses) recognized directly in OCI	1.1	(0.1)	(2.4)	1.7
Cumulative actuarial gains (losses), end of year	$ (36.0)	$ 2.9	$ (37.1)	$ 3.0

	December 31, 2019		December 31, 2018	
	Salaried Pension Plans	Non-pension Plans	Salaried Pension Plans	Non-pension Plans
Experience gains (losses):				
Experience gains (losses) on plan assets:				
Amount	$ 8.8	n/a	$ (5.4)	n/a
Percentage of plan assets	7.80%	n/a	(5.11)%	n/a
Experience gains (losses) on plan liabilities:				
Amount	$ 0.7	$ -	$ (0.1)	$ 0.6
Percentage of plan assets	0.58%	0.00%	(0.05)%	20.45%

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

19. Employee benefits (continued)

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

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

Total cash payments for employee future benefits for the year ended December 31, 2019 were $12.2 million (December 31, 2018: $17.0 million), consisting of cash contributed by the Company to its funded pension plans, cash payments directly to beneficiaries for its unfunded other benefit plans, and cash contributed to the forest industry union defined benefit plans.

In relation to defined benefit plans, the Company measures the fair value of plan assets and the accrued benefit obligations for accounting purposes as at December 31 of each year. The most recent actuarial valuations of the funded defined benefit pension plans were performed at December 31, 2018. The next actuarial valuation for both the funded and unfunded defined benefit plans and other unfunded post-employment benefit plans will be prepared for December 31, 2021. Included in the accrued benefit obligations and plan assets for salaried pension plans, presented above, are accrued benefit obligations of $119.8 million at December 31, 2019 (December 31, 2018: $116.2 million) in respect of plans that are wholly or partially funded.

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

	December 31, 2019	December 31, 2018
Equity securities	27%	28%
Debt securities	71%	69%
Other	2%	3%
	100%	100%

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

	December 31, 2019	December 31, 2018	December 31, 2019 Increase (Decrease) of Accrued Benefit Obligation with Change in Assumption 1% Increase	 1% Decrease
Discount rate, beginning of year for:				
Pension plans	3.60%	3.33%	n/a	n/a
Non-pension plans	3.45%	3.25%	n/a	n/a
Discount rate, end of year for:				
Pension plans	2.98%	3.60%	12,453,700	(15,001,700)
Non-pension plans	2.95%	3.45%	237,300	(273,300)
Rate of compensation increase for all plans	0.01%	0.01%	(48,400)	44,800
Health care and medical cost trend rate	5.61% in 2020 grading to 3.86% in 2029	5.61% in 2019 grading to 3.86% in 2029	(150,900)	156,100
Future mortality	n/a	n/a	358,700	(362,500)

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

19. Employee benefits (continued)

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

	December 31, 2019		December 31, 2018	
	Salaried Pension Plans	Non-pension Plans	Salaried Pension Plans	Non-pension Plans
Defined benefit plans:				
Current service costs and administrative expenses	$ 0.3	$ -	$ 0.3	$ -
Net interest costs	0.5	0.1	0.5	0.1
Total cost of employee post-retirement benefits	$ 0.8	$ 0.1	$ 0.8	$ 0.1

The Company is committed to make funding contributions to its defined benefit plans of $2.6 million during 2020.

The Company's unionized employees are members of industry-wide pension plans to which the Company contributes a predetermined amount per hour worked by an employee. The Company's liability is limited to its contributions. The pension expense for these plans is equal to the Company's contributions. For 2019, such contributions amounted to $4.9 million (2018: $9.4 million).

20. Financial instruments – fair values and risk management

Accounting policy

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

(a) Financial assets

The Company classifies its financial assets in the following categories: amortized cost, fair value through other comprehensive income ("FVOCI") – debt investment; FVOCI – equity investment; or fair value through profit and loss ("FVTPL"). This classification of a financial asset is based on the business model in which a financial asset is managed and its contractual cash flow characteristics

The Company initially recognizes loans and receivables on the date that they are originated. All other financial assets are recognized initially on the trade date at which the Company becomes a party to the contractual provisions of the instrument.

The Company derecognizes a financial asset when the contractual cash flows from the asset expire, or it transfers the rights to receive the contractual cash flows on the financial asset in a transaction in which substantially all the risks and rewards of ownership of the financial asset are transferred. Any interest in transferred financial assets that is created or retained by the Company is recognized as a separate asset or liability.

A financial asset is measured at amortized cost if it meets both of the following conditions, and is not designated as at FVTPL:

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

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

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

(a) Financial assets (continued)

All financial assets not measured at amortized cost or FVOCI are measured at FVTPL. This includes all derivative financial assets. On initial recognition, the Company may irrevocably designate a financial asset that otherwise meets the requirements to be measured at amortized cost or at FVOCI as at FVTPL if doing so reduces an accounting mismatch that would otherwise arise.

A financial asset not measured at FVTPL is initially measured at fair value plus transaction costs that are directly attributable to its acquisition. A financial asset is classified at fair value through profit or loss if it is classified as held for trading or is designated as such upon initial recognition. Upon initial recognition, directly attributable transaction costs are recognized in net income as incurred. Financial assets at fair value through profit or loss are measured at fair value, and changes therein are recognized in net income. Financial assets at fair value through profit or loss are comprised of certain investments and forward exchange contracts.

Loans and receivables are financial assets with fixed or determinable payments that are not quoted in an active market. Such assets are initially recognized at transaction price plus any directly attributable transaction costs. Subsequent to initial recognition, loans and receivables are measured at amortized cost using the effective interest method, less any impairment losses.

Loans and receivables comprise cash and cash equivalents, trade and other receivables. Cash and cash equivalents is comprised of cash balances and short-term investments with original maturities of 90 days or less.

A financial asset not carried at fair value through profit or loss is assessed at each reporting date to determine whether there is objective evidence that it is impaired. A financial asset is impaired if objective evidence indicates that a loss event has occurred after the initial recognition of the asset, and that the loss event had a negative effect on the estimated future cash flows of that asset that can be estimated reliably.

IFRS 9 uses an expected credit loss (“ECL”) model to test for impairment, which applies to financial assets measured at amortized costs, contract assets and debt investments at FVOCI. Financial assets held at amortized cost consist of cash and cash equivalents and trade and other receivables. Loss allowances are measured on either of 12-month ECLs where the ECLs result from all possible default events within the 12 months after the reporting date; or lifetime ECLs, where the ECLs result from all possible default events over the expected life of a financial instrument.

The Company measures loss allowances at an amount equal to twelve months ECLs for cash and cash equivalent balances where credit risk has not increased significantly since initial recognition. The Company has elected to measure loss allowances for trade receivables and any future contract assets at an amount equal to lifetime ECLs.

ECLs are a probability-weighted estimate of credit losses. Credit losses are measured as the present value of all expected cash shortfalls and are discounted at the effective interest rate of the financial asset. At each reporting date the Company assesses whether financial assets carried at amortized costs are credit-impaired. A financial asset is considered credit-impaired when one or more events that have a detrimental impact on the estimated future cash flows of the financial asset have occurred.

Loss allowances for financial assets measured at amortized cost are deducted from the gross carrying amount of the assets. Impairment losses related to trade and other receivables, including contract assets, are presented separately in the statement of comprehensive income.

(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)

(b) *Financial liabilities*

The Company initially recognizes debt issued on the date that it is originated. The Company derecognizes a financial liability when its contractual obligations are discharged, cancelled, or expire. The Company's non-derivative financial liabilities consist of long-term debt, as well as accounts payable and accrued liabilities. These financial liabilities are recognized initially at fair value less any directly attributable transaction costs. Subsequent to initial recognition, these financial liabilities are measured at amortized cost using the effective interest method.

(c) *Derivative financial instruments*

The Company may enter into derivative financial instruments (foreign currency forward contracts) in order to mitigate its exposure to foreign exchange risk. These financial instruments are measured at FVTPL. The Company's policy is not to use derivative financial instruments for trading or speculative purposes. These instruments have not been designated as hedges for accounting purposes, and they are carried on the statement of financial position at fair value with changes in value being recognized as gains or losses within sales in net income for the period.

Embedded derivatives are separated from the host contract and accounted for separately if (i) the economic characteristics and risks of the host contract and the embedded derivative are not closely related, (ii) a separate instrument with the same terms as the embedded derivative would meet the definition of a derivative, and (iii) the combined instrument is not measured at fair value through profit or loss. Changes in the fair value of separable embedded derivatives are recognized immediately in net income.

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

(d) *Accounting classifications and fair values*

The following table shows the carrying amounts and fair values of financial assets and financial liabilities, including their levels in the fair valuation hierarchy. It does not include fair value information for financial assets or liabilities not measured at fair value if the carrying amount is a reasonable approximation of fair value. There has been no movement between fair value levels since December 31, 2018.

	December 31, 2019			December 31, 2018		
	Mandatory at at FVTPL	Amortized Cost	Total	Mandatory at FVTPL	Amortized Cost	Total
Financial assets						
Market-based investments	$ 4.9	$ -	$ 4.9	$ 4.9	$ -	$ 4.9
Foreign currency forward contracts	0.2	-	0.2	-	-	-
Cash and cash equivalents	-	2.1	2.1	-	8.4	8.4
Trade and other receivables	-	23.2	23.2	-	91.3	91.3
Total financial assets	$ 5.1	$ 25.3	$ 30.4	$ 4.9	$ 99.7	$ 104.6
	Mandatory at FVTPL	Other Financial Liabilities	Total	Mandatory at FVTPL	Other Financial Liabilities	Total
Financial liabilities						
Foreign currency forward contracts	$ -	$ -	$ -	$ 2.2	$ -	$ 2.2
Accounts payable and accrued liabilities	-	35.0	35.0	-	117.0	117.0
Lease liabilities (Note 10)	-	19.9	19.9	-	-	-
Long-term debt (Note 9)	-	114.1	114.1	-	7.0	7.0
Total financial liabilities	$ -	$ 169.0	$ 169.0	$ 2.2	$ 124.0	$ 126.2

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

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

(e) Financial risk management

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

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

(i) Credit risk

Credit risk is the risk of financial loss to the Company if a customer or counterparty to a financial instrument fails to meet its contractual obligations and arises principally from the Company's receivables from customers, and cash and cash equivalents. The carrying amount of the Company's financial assets represents the maximum credit exposure.

The Company's exposure to credit risk is influenced mainly by the individual characteristics of each customer. However, Management also considers the demographics of the Company's customer base, including the default risk of the industry and country in which customers operate, as these factors may have an influence on credit risk. The Company has determined that there is no concentration of credit risk either geographically or by counterparty.

Sales transactions are made through the extension of credit to customers and are recorded at the point in time the sale is recognized. Accordingly, fluctuations in collectability may affect the carrying value of the underlying accounts receivable. Management balances the credit risk through rigorously and continually reviewing customer credit profiles. The Company has established policies and controls to review the creditworthiness of new customers, including review of credit ratings. The Company's general practice is to insure substantially all North American lumber receivables for 90% of value with the Export Development Corporation or Coface Canada, while substantially all sales outside of North America are sold on either a cash basis or with secured instruments, which reduces the Company's exposure to bad debts.

The Company regularly reviews the collectability of accounts receivable and makes provisions where the collectability is uncertain. Historically the Company's bad debts have been minimal and as at December 31, 2019, the Company had an allowance for doubtful customer accounts of nil (December 31, 2018: nil).

The aging of trade and other receivables at the reporting date that were not impaired was as follows:

	December 31, 2019		December 31, 2018	
	Gross value	Impairment	Gross value	Impairment
Not past due	$ 22.6	$ -	$ 85.0	$ -
Past due 0-30 days	0.3	-	6.1	-
Past due 31-120 days	0.5	-	0.2	-
	$ 23.4	$ -	$ 91.3	$ -

The Company held cash and cash equivalents of $2.1 million at December 31, 2019 (December 31, 2018: $8.4 million), which represents its maximum credit exposure on these assets. The cash and cash equivalents are held at highly rated financial institutions and as such, the Company does not believe that these are exposed to significant credit risk.

(ii) Interest rate risk

The Company is exposed to interest rate risk through its current financial assets and financial obligations bearing variable interest rates. Based on the Company's debt structure at December 31, 2019, a change of 1% in interest rates would result in a change of approximately $0.8 million to annual net income (2018: immaterial change). The Company does not currently use derivative instruments to reduce its exposure to interest rate risk.

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

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

(e) Financial risk management (continued)

(iii) Currency risk

Certain of the Company's sales transactions are denominated in foreign currencies, principally, the United States Dollar ("USD") and Japanese Yen ("JPY"), and accordingly the Company is exposed to currency risk associated with changes in foreign exchange rates. To assist in managing this exchange risk, the Company sells forward contracts with a maximum term for each transaction of up to one year. The Company does not consider the credit risk associated with the counterparty risk to be significant.

During 2019, the Company entered into forward contracts to sell USD and JPY in order to mitigate a portion of the foreign currency risk. At December 31, 2019, the Company had outstanding obligations to sell an aggregate USD$12.0 million at an average exchange rate of CAD$1.3160 per USD with maturities through January 30, 2020 (2018: USD $62.3 million at an average exchange rate of CAD1.3300 per USD; JPY 155.0 million at a rate of JPY 80.40 per CAD).

All foreign currency gains and losses on forward contracts to December 31, 2019 have been recognized in sales in the consolidated statement of comprehensive income and the fair value of these instruments at December 31, 2019 was a net asset of $0.2 million which is included in trade and other receivables on the consolidated statement of financial position (December 31, 2018: net liability of $2.2 million). A net gain of $0.7 million (2018: net loss of $5.1 million) was recognized in sales in the consolidated statement of comprehensive income on the change in fair values of the foreign exchange contracts.

An increase (decrease) of 1% in the value of the CAD as compared to the USD would result in a gain (loss) of approximately $0.2 million in relation to the USD foreign exchange contracts held at December 31, 2019.

Certain receivable balances at December 31, 2019 are denominated in foreign currencies, principally, the USD. Accordingly, fluctuations in foreign exchange rates may affect the carrying value of the underlying accounts receivable. As of December 31, 2019, the Company's accounts receivable denominated in USD totaled USD$9.7 million. An increase (decrease) in the value of the Canadian dollar by USD$0.01 would result in an immaterial change to USD denominated accounts receivable. In addition, as at December 31, 2019, the Company had a total of USD$1.5 million in USD denominated cash and cash equivalents. An increase (decrease) in the value of the Canadian dollar by USD$0.01 would result in an immaterial change to USD denominated cash and cash equivalents at year end.

(iv) Commodity price risk

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

(v) Liquidity risk

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

As at December 31, 2019, the Company had $134.8 million (December 31, 2018: $242.0 million) available under its Credit Facility. The following are the contractual maturities of financial liabilities, including estimated interest payments:

	Carrying amount	Contractual cash flows	6 months or less	6 - 12 months	2 - 3 years	4 - 5 years	More than 5 years
Accounts payable and accrued liabilities	$ 35.0	$ 35.0	$ 35.0	$ -	$ -	$ -	$ -
Lease liabilities	19.9	20.2	2.8	2.8	8.5	3.2	2.9
Long-term debt	114.1	130.2	3.0	3.0	124.2	-	-
	$ 169.0	$ 185.4	$ 40.8	$ 5.8	$ 132.7	$ 3.2	$ 2.9

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

21. Other income (expense)

	Years ended December 31, 2019	2018
Change in fair value of biological assets (Note 7)	$ (2.8)	$ -
Loss on disposal of assets	(0.7)	0.5
Other	(1.9)	(1.6)
	$ (5.4)	$ (1.1)

22. Finance costs

Accounting policy

Finance costs comprise interest expense on long-term debt and the Credit Facility, amortization of deferred financing costs, unwinding of the discount on the reforestation obligation, changes in the fair value of investments recognized immediately through net income and net interest on the net defined benefit plan obligation. All finance costs are recognized in net income during the period using the effective interest method with the exception of the net interest on the net defined benefit obligation, which is recognized as described in Note 19.

Supporting information

	Years ended December 31, 2019	2018
Long-term debt	$ 5.7	$ 0.8
Net interest - defined benefit plan obligation	0.6	0.6
Finance costs - lease liabilities	0.8	-
Revolving credit facility	-	0.3
Amortization of deferred financing costs	0.3	0.5
Unwinding of discount on provisions	0.2	0.3
Other	0.2	0.2
	$ 7.8	$ 2.7

23. Operating restructuring items

Included in operating restructuring expenses in 2019 were $3.5 million (2018: $4.8 million) which included $1.4 million of non-operating costs incurred subsequent to the indefinite curtailment of the Company's Somass sawmill, and $2.1 million in severance and related expenses attributable to ongoing business optimization initiatives.

24. Segmented information

Accounting policy

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

A geographical segment is engaged in providing products or services within a particular economic environment that is subject to risks and returns that are different from those of segments operating in other economic environments. Western's log and lumber products are sold worldwide. A large portion of Western's property, plant and equipment, biological assets and timber licences are located in British Columbia, Canada. The Company manages its business as a single operating segment. The Company purchases and harvests logs, which are then manufactured into lumber products at the Company's sawmills, or sold.

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

25. Revenue

Accounting policy

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

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

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

Lumber

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

Logs

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

By-products

Revenue is recognized when control over by-products is transferred to the customer, the timing of this transfer of control varies depending on the individual terms of the contract of sale, but is typically at the time by-products leave the Company's facilities or are scaled at the pick-up location. Invoices are generated and revenue is recognized at that point in time. No discounts are offered for by-products.

Supporting information

(a) *Disaggregation of revenue*

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

	Year ended December 31, 2019	2018
Primary geographical markets		
Canada	$ 275.9	$ 449.1
United States	216.2	290.8
China	133.5	190.9
Japan	118.6	152.0
Other	47.5	100.0
Europe	16.0	13.9
	$ 807.7	$ 1,196.7
Major Products		
Lumber	$ 628.3	$ 952.9
Logs	144.0	160.0
By-products	35.4	83.8
	$ 807.7	$ 1,196.7

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

25. Revenue (continued)

(b) Contract balances

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

	December 31, 2019	December 31, 2018
Receivables	$ 23.4	$ 91.3
Contract liabilities	52.4	54.4

The contract liabilities relate to the consideration received from a customer for a long-term fibre supply contract and are recognized as deferred revenue, for which revenue is recognized straight-line over the term of the contract. The contract liabilities decreased $2.0 million during the year ended December 31, 2019 as the amount was recognized as revenue.

(c) Contract costs

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

26. Related parties

Accounting policy

Key management personnel are the Company's directors and executive officers as disclosed in its 2019 and 2018 Annual Reports as applicable.

Supporting information

Compensation of key management personnel

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

	Years ended December 31, 2019	Years ended December 31, 2018
Salaries, directors' fees and short-term benefits	$ 4.5	$ 7.2
Post-employment benefits	0.4	0.3
Share-based compensation, including mark-to-market adjustment	(1.2)	2.7
	$ 3.7	$ 10.2

At December 31, 2019, $3.5 million of key management compensation costs were included in accounts payable and accrued liabilities and other liabilities (December 31, 2018: $9.1 million).

27. Expense categorization

Expenses by function:

	Years ended December 31, 2019	Years ended December 31, 2018
Administration	$ 19.9	$ 21.1
Distribution expenses	103.1	144.5
Cost of goods sold	731.4	927.7
	$ 854.4	$ 1,093.3

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

27. Expense categorization (continued)

Selected costs by nature:

	Years ended December 31, 2019	2018
Compensation costs	$ 155.5	$ 213.4
Amortization in cost of goods sold	43.8	39.3
Amortization in selling and administration	1.6	0.9

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

28. Non-controlling interest

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

29. Business combination

On February 1, 2019, the Company completed the acquisition of the assets of Columbia Vista Corporation and certain related entities ("Columbia Vista") located in Vancouver, Washington for consideration of USD$28.4 million (CAD$37.7 million). Included in total consideration was USD$23.8 million (CAD$31.6 million) for the fair value of property, plant and equipment. The acquisition was accounted for as a business combination, with Western deemed to be the acquirer.

Columbia Vista is a lumber manufacturer that focuses production on Douglas Fir specialty products for the Japan and US markets. This acquisition aligns with the Company's margin-focused business strategy, and the newly combined Company brings together a complementary mix of products, customer relationships and employees.

The Company incurred total acquisition-related other expenses of $1.4 million, of which $0.7 million was recognized in net income during the year ended December 31, 2019, and $0.7 million was recognized in the year-ended December 31, 2018. Since the acquisition date, Columbia Vista has contributed revenue of $69.0 million and net income of $4.1 million.

The following table presents the purchase price allocation to the identifiable assets and liabilities based on their estimated fair values on the acquisition date.

Consideration allocated to:	
Land	$ 10.6
Buildings	5.3
Equipment	15.7
Inventory	6.6
Prepaid expenses and other	3.5
Right of use assets	0.8
Lease liabilities	(0.8)
Accounts payable	(4.0)
Total consideration	$ 37.7

The fair value of property, plant & equipment was determined considering asset replacement value, net realizable value of the assets acquired and other factors.

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DEFINING A HIGHER STANDARD™

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