Western Forest Products Inc.
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Western Forest Products Inc.

2020 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, 2020, 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, 2020 and 2019, which can be found on SEDAR at www.sedar.com.

The Company has prepared the consolidated financial statements for the years ended December 31, 2020 and 2019 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, but are meaningful in that they indicate the Company's ability to meet its obligations on an ongoing basis and indicate whether the Company is more or less leveraged than in the past.

This MD&A contains statements that may constitute forward-looking statements under the applicable securities laws. Readers are cautioned against placing undue reliance on forward-looking statements. All statements herein, other than statements of historical fact, may be forward-looking statements and can be identified by the use of words such as "will", "estimate", "commit". "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, accounting standards, future costs, available harvest levels, capital allocation including issuance of dividends and capital expenditures, and our future operating performance, objectives, 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: 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, 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, information systems security, the existence of a public health crisis (such as the current COVID-19 pandemic) and other factors referenced under the "Risks and Uncertainties" section herein. The foregoing list is not exhaustive, as other factors could adversely affect our actual results and performance. Forward-looking statements are based only on information currently available to us and refer only as of the date hereof. Except as required by law, we undertake no obligation to update forward-looking statements. Unless otherwise noted, the information in this discussion and analysis is updated to February 18, 2021.

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

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, 2020	2019	2018
Revenue			
Lumber	$ 737.2	$ 628.3	$ 952.9
Logs	200.5	144.0	160.0
By-products	27.2	35.4	83.8
Total revenue	$ 964.9	$ 807.7	$ 1,196.7
Operating income (loss) prior to restructuring and other items	61.2	(46.7)	103.4
Net income (loss)	33.4	(46.7)	69.2
Adjusted EBITDA	$ 116.8	$ (1.5)	$ 143.5
Adjusted EBITDA margin	12%	0%	12%
Basic and diluted earnings (loss) per share (in dollars)	$ 0.09	$ (0.12)	$ 0.18
Cash dividends declared per share (in dollars)	0.0225	0.0875	0.0800
Total Assets	$ 852.2	$ 782.5	$ 855.8
Net Debt (Cash) [2]	69.2	111.3	(2.4)

(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 and bank indebtedness, less cash and cash equivalents.

Overview

Western delivered adjusted EBITDA of $116.8 million in 2020, as we returned to more normalized operations and capitalized on improved markets. Despite unprecedented operating challenges including the re-start of operations after a lengthy strike and the onset of the COVID 19 pandemic, we successfully re-established the earnings capabilities of the business. We took advantage of strong North American markets by growing our Western Red Cedar business and by redirecting production from weaker export markets.

In February 2020, we reached a new 5-year collective agreement to end strike action (the “Strike”) by the United Steelworkers Local 1-1937 (“USW”), which had been ongoing at most of our British Columbia (“BC”) operations since July 2019. Following the Strike, we performed all necessary safety and maintenance procedures before commencing a gradual restart of Strike-curtailed operations.

As we worked to restart our Strike-curtailed operations, the novel Coronavirus pandemic (“COVID-19”) began to impact the global economy, resulting in government-imposed lockdowns and stay at home orders. We implemented enhanced health and safety protocols at all our operations to keep our employees and communities safe. With the support from a COVID-19 related government support program, we were able to prevent significant temporary curtailments and employee layoffs, and offset the cost of enhanced health and safety protocols.

Despite uncertainty created by COVID-19, we continued to make significant progress implementing our strategic initiatives in 2020 and early 2021, including:

- Expanding our environmental, social and governance (“ESG”) disclosure with the release of our latest annual sustainability report. We manufacture one of the most sustainable building products on the planet, and we are committed to defining a higher standard in our sustainability practices and our ESG reporting.
- Advancing our strategic partnerships with First Nations and continuing to reposition our coastal tenure assets. We announced an agreement to sell an incremental ownership interest in TFL 44 Limited Partnership to the Huumiis Ventures Limited Partnership, a limited partnership beneficially owned by the Huu-ay-aht First Nations.
- Advancing our sales and marketing strategy, which targets the sale of high-margin and high-value products of scale to selected customers. During the year we reached marketing and vendor purchase agreements which are expected to increase our lumber sales into North American Home Centre and Pro-Dealer sales channels. We also created a new product branding strategy to differentiate our high-quality products and drive increased demand for Western’s specialty products.

- Achieving long-term collective agreements with key labour unions. In February 2020, the USW, which represents approximately 1,500 of our hourly employees and approximately 1,500 personnel working for our Timberlands' contractors, ratified a new 5-year collective agreement that expires in June 2024. In February 2021, members of the Public and Private Workers of Canada ("PPWC") representing unionized employees at our Ladysmith Sawmill ratified a new 8-year collective agreement that expires in December 2028.

We also continue to benefit from our prior strategic and safety initiatives, and capital investments, including:

- Investments in our information technology and systems, to further improve security and facilitate remote work for certain employees to enhance safety, while also ensuring we remain connected, both internally and with our global customers.
- Investments in supplemental safety programs and training, identifying safety leaders and implementing enhanced reporting measures which contributed to improved metrics in 2020, including achieving zero-incident workplaces at many operations.
- Our Columbia Vista division, which was acquired in February 2019, continues to exceed expectations. Despite weaker Japanese markets during 2020, Columbia Vista generated adjusted EBITDA above its long-term historical trend levels while delivering two years of incident-free safety performance. We continue to evaluate opportunities to lever and grow our Columbia Vista platform.
- Leveraging our Arlington facility to assist us in re-positioning and growing our product lines and streamlining our logistics and distribution platform, moving us closer to the final customer.
- Our strategic capital investments in our BC operating platform has supported our ability to re-direct production from weaker export markets into the specialty treated lumber segment in North America. Our investments in our BC coastal mill platform has positioned us as the only lumber manufacturer capable of consuming and economically manufacturing the entire forest profile of the BC Coast.

The successful execution of our strategic initiatives and prior capital investments, combined with strong lumber markets and the reduction of our debt outstanding, has resulted in our Board of Directors reinstating a regular quarterly dividend of $0.01 per share. Going forward, we remain committed to a balanced approach to capital allocation, while also considering internal and external growth opportunities to grow long-term shareholder value.

Looking ahead, we're encouraged by robust North American market fundamentals and returning strength in export markets. Longer-term, we are also excited about the growth opportunities the increased use of Mass Timber building technologies ("Mass Timber") in North America will provide our industry. In addition to increasing the demand for wood products, Mass Timber will further help solidify wood as one of the world's most sustainable building materials. We continue to evaluate how we may best participate in this potential growth opportunity.

We plan to publish our third annual sustainability report in 2021. The report will further demonstrate Western's commitment to ESG policies and practices, as well as offer expanded commentary and metrics on key topics.

We expect to continue to engage and work with our customers, employees, unions, communities, first nations, shareholders, other stakeholders and all levels of government. We remain committed to working together to develop mutually beneficial relationships to support jobs and the communities in which we operate, while ensuring we are creating long-term value for our shareholders.

Our long-term focus remains the same; to successfully and sustainably implement our strategic initiatives to strengthen our foundation; grow our base; grow our business; and deliver long-term shareholder value. We will continue to look to strengthen our customer relationships and grow volumes, while maintaining a safe work environment during COVID-19.

Summary of Selected Quarterly and Annual Results (1)

(millions of Canadian dollars except per share amounts and where otherwise noted)	Price Basis	Q4 2020	Q4 2019	Q3 2020	Annual 2020	Annual 2019
Summary Information						
Revenue						
Lumber		$ 256.6	$ 66.1	$ 208.6	$ 737.2	$ 628.3
Logs		53.4	12.1	73.7	200.5	144.0
By-products		8.9	1.9	8.3	27.2	35.4
Total revenue		$ 318.9	$ 80.1	$ 290.6	$ 964.9	$ 807.7
Freight		$ 24.9	$ 5.1	$ 22.4	$ 73.7	$ 64.1
Export tax expense		12.1	3.4	11.0	34.6	27.8
Export tax recovery		(31.6)	-	-	(31.6)	-
Stumpage		8.1	-	11.4	30.5	26.0
Adjusted EBITDA		$ 71.1	$ (18.1)	$ 33.7	$ 116.8	$ (1.5)
Adjusted EBITDA margin		22%	-23%	12%	12%	0%
Operating income (loss) prior to restructuring and other items		$ 56.0	$ (29.6)	$ 19.0	$ 61.2	$ (46.7)
Net income (loss)		34.4	(29.2)	11.5	33.4	(46.7)
Basic and diluted earnings (loss) per share (in dollars)		0.09	(0.09)	0.03	0.09	(0.12)
Operating Information						
Lumber(2)						
Lumber Shipments – millions of board feet						
Western Red Cedar		50	18	52	167	139
Japan Specialty		22	13	23	91	102
Niche		25	4	23	81	79
Commodity		107	9	67	246	228
Total		204	44	165	585	548
Lumber Production – millions of board feet		180	34	192	576	491
Lumber Price – per thousand board feet		$ 1,258	$ 1,502	$ 1,264	$ 1,260	$ 1,147
Wholesale Lumber Shipments - millions of board feet		6	10	8	35	34
Logs(3)						
Log Shipments – thousands of cubic metres						
Export		73	22	129	280	129
Domestic		225	70	346	1,029	842
Pulp		173	43	204	568	315
Total		471	135	679	1,877	1,286
Net production – thousands of cubic metres(4)		901	21	1,138	3,430	2,214
Saw log purchases – thousands of cubic metres		222	34	235	835	564
Log Price – per cubic metre(5)		$ 113	$ 90	$ 109	$ 104	$ 108
Illustrative Lumber Average Price Data(6)	**Price Basis**					
Grn WRC #2 Clear & Btr 4x6W RL ($C)	c.i.f. dest. N Euro	$ 4,867	$ 4,478	$ 4,575	$ 4,585	$ 4,492
Grn WRC Deck Knotty 2x6 RL S4S	Net f.o.b. Mill	$ 1,757	$ 1,340	$ 1,600	$ 1,532	$ 1,346
Grn WRC #2 & Btr AG 6x6 RL	Net f.o.b. Mill	$ 2,540	$ 2,291	$ 2,471	$ 2,435	$ 2,257
Coast Grn WRC Std&Btr NH 3/4x4 RL S1S2E	Net f.o.b. Mill	$ 1,402	$ 1,095	$ 1,179	$ 1,193	$ 1,096
Grn Hem Baby Squares Merch 4-1/8x4-1/8 13' S4S	c.&f. dest. Japan	$ 790	$ 827	$ 755	$ 784	$ 879
Grn Dfir Baby Squares Merch 4-1/8x4-1/8 RL S4S	c.&f. dest. Japan	$ 952	$ 1,035	$ 910	$ 953	$ 1,096
KD White Fir Shop Moulding&Btr C&Btr 5/4 S2S	Net f.o.b. Mill	$ 1,022	$ 1,085	$ 1,009	$ 1,053	$ 1,081
Grn Dfir (Portland) #1&Btr 100% FOHC 6x6 Rough	Net f.o.b. Mill	$ 1,470	$ 1,234	$ 1,361	$ 1,343	$ 1,256
Hemlock Lumber 2x4 (40x90) Metric RG Utility	c.i.f. dest. Shanghai	$ 476	$ 397	$ 468	$ 457	$ 409
Coast KD Hem-Fir #2 & Btr 2x4	Net f.o.b. Mill	$ 764	$ 397	$ 785	$ 599	$ 378
Average Exchange Rate – CAD to USD		0.767	0.758	0.751	0.746	0.754
Average Exchange Rate – CAD to JPY		80.01	82.37	79.68	79.57	82.18

(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 average realized log price per cubic metre has been presented on a gross basis, which may include fee-in-lieu and shipping charges incurred on behalf customers to facilitate sales to export markets.
(6) Sourced from Random Lengths in USD/Mfbm, except Hemlock Lumber Metric RG Utility that is sourced from the Forest Economic Advisors LLC China Bulletin.

Summary of Fourth Quarter 2020 Results

Adjusted EBITDA for the fourth quarter of 2020 was $71.1 million, as compared to negative adjusted EBITDA of $18.1 million during the same period last year. The recovery of export tax attributable to the final determination of 2017 and 2018 United States ("US") imposed export tax rates accounted for $31.6 million of adjusted EBITDA. We grew fourth quarter adjusted EBITDA, despite volatility in North American commodity markets, by increasing lumber shipments, redirecting certain commodity volumes to a strong North American treating segment, and by recognizing a non-cash recovery of export tax.

Operating income prior to restructuring and other items was $56.0 million, as compared to operating loss prior to restructuring and other items of $29.6 million in the same period last year. Comparative results were significantly impacted by the Strike, which curtailed all of our timberlands and most of our BC based manufacturing operations from July 2019 through February 2020.

Sales

In the fourth quarter unseasonably strong demand and constrained supply supported pricing for our North American product lines, while prices in our export markets remained relatively weak. North American lumber pricing was volatile through the quarter as inventory in the distribution channel could not supply demand that was stronger than anticipated. Domestic log markets continued to improve in the fourth quarter supported by the strength of lumber markets and constrained supply. Pulp log markets remained muted while prices for export logs into China improved marginally.

We took advantage of strong North American lumber markets by maintaining Western Red Cedar volumes during a traditionally slower period and by redirecting production and sales from weaker export markets. We grew lumber revenue by 23% from the third quarter of 2020, on the strength of higher prices for our Western Red Cedar products, and increased sales volumes and prices in our commodity lumber segment. Lumber revenue was $256.6 million, as compared to $66.1 million in the Strike affected fourth quarter of 2019, and $208.6 million in the third quarter of 2020. We grew lumber shipments by 24% from the third quarter of 2020, led by a 60% increase in commodity lumber shipments which were mostly directed to the specialty treated lumber sector.

Specialty lumber represented 48% of fourth quarter shipments in 2020 compared to 80% in the same period last year and 59% in the third quarter of 2020. A greater commodity weighting to our lumber sales mix and stronger Canadian dollar ("CAD") to United States dollar ("USD") reduced our average realized lumber price from the comparative periods, while benchmark pricing for the majority of our products continued to rise.

Log revenue was $53.4 million, as compared to $12.1 million in the Strike affected fourth quarter of 2019, and $73.7 million in the third quarter of 2020. We achieved a higher average realized log price than the comparative periods despite a weaker sales mix and lower export market pricing. We directed the majority of our export log inventory to our sawmills to capitalize on the strong North American lumber market. Limited export log shipments originated primarily from commitments under First Nation partnership and joint venture arrangements.

By-product revenue was $8.9 million, as compared to $1.9 million in the Strike affected fourth quarter of 2019, and $8.3 million in the third quarter of 2020. By-product revenue increased from the third quarter of 2020 as a result of moderately improved chip pricing and higher by-product shipments.

Operations

Lumber production was 180 million board feet, as compared to 34 million board feet in the Strike affected fourth quarter of 2019, and 192 million board feet in the third quarter of 2020. Production decreased by 6% from the third quarter of 2020 as we balanced lumber production with remanufacturing capacity. We have continued to lever our flexible operating platform by redirecting production from relatively weak export markets into the strong North American market.

We reduced operating hours at our Duke Point sawmill by 10% and temporarily curtailed our Cowichan Bay sawmill operations for two weeks to balance production to secondary processing capacity. Our Port Alberni sawmill was curtailed for two weeks due to unplanned maintenance. We have resumed operations at Cowichan Bay and Port Alberni, while Duke Point continues to run on an adjusted two-shift basis. In early February 2021, we added a second shift at our Ladysmith sawmill as lumber markets in China began to improve.

We produced 901,000 cubic metres of logs from our BC coastal operations in the fourth quarter of 2020, as compared to 21,000 cubic metres in the same quarter of last year and 1,138,000 cubic metres in the third quarter of 2020. Harvest volumes were reduced due to typical seasonal operating conditions.

BC coastal saw log purchases were 222,000 cubic metres, as compared to 34,000 cubic metres in the same period last year. Although market log supply has been limited, we have been successful in growing log purchase volumes to support our mills.

Freight expense was $24.9 million, as compared to $5.1 million in the Strike affected fourth quarter of 2019 and $22.4 million in the third quarter of 2020. An increase in container shipping rates and greater lumber shipment volumes drove an increase in freight expense over the comparative periods.

Fourth quarter adjusted EBITDA and operating income included $12.1 million of US-imposed countervailing duty ("CVD") and anti-dumping duty ("AD") expense, as compared to $3.4 million in the same period last year and $11.0 million in the third quarter of 2020. Duty expense rose as a result of increased US-destined lumber shipment volumes, which offset the benefit of the December 1, 2020 reduction in applicable combined duty rate from 20.23% to 8.99%. In addition, we recognized a $31.6 million export duty tax recovery against export tax expense in relation to the US Department of Commerce's ("DoC") final determination on assessed rates applicable to 2017 and 2018. For further information on CVD and AD see *"Risks and Uncertainties"*.

Selling and Administration Expense

Fourth quarter selling and administration expense was $11.9 million in 2020 as compared to $8.0 million in the Strike affected fourth quarter of 2019. Improved financial performance drove an incremental $1.5 million of incentive compensation expense, while appreciation of the Company's share price led to a $0.9 million increase in long-term compensation liabilities.

In addition to increased health and safety and IT costs associated with COVID-19 operating requirements, we expensed an incremental $0.5 million of non-recurring strategic and governance consulting fees.

Finance Costs

Lower average outstanding debt balance and the recognition of interest income on duty receivable resulted in income from financing activities of $0.5 million, as compared to finance costs of $2.2 million in the same period last year. As at December 31, 2020, the Company had drawn $70.2 million on its credit facility, significantly reduced from $114.1 million drawn at December 31, 2019. See *"Financial Position and Liquidity"* for further information.

Other Expense

We recognized other expenses of $6.4 million in the fourth quarter of 2020, including impairments of $3.6 million on non-core lands and a $2.0 million loss on asset dispositions partially offset by other income. In the same period of 2019, we recognized other expense of $5.3 million, including $2.8 million fair value reduction in private timberlands and multiple lesser non-recurring expenses related to asset acquisitions, dispositions and environmental remediation.

Net Income (Loss)

Net income for the fourth quarter was $34.4 million, as compared to net loss of $29.2 million for the same period of 2019. Net income improved as we increased shipments to strong North American markets by redirecting volumes from relatively weaker export markets, and recognized export tax recovery.

Summary of 2020 Annual Results

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

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

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

Adjusted EBITDA for 2020 was $116.8 million, as compared to negative adjusted EBITDA of $1.5 million from the prior year. Operating income prior to restructuring items and other items was $61.2 million, as compared to an operating loss prior to restructuring items and other items of $46.7 million in the prior year. We capitalized on improvements in North American lumber and log markets, beginning in June 2020, to overcome operating losses incurred earlier in the year. COVID-19 initially reduced demand for our products and caused some customers to defer order shipments. Demand for our products slowly recovered after governments started to lift their shutdowns and other restrictions. Demand slowly began to return in China early in the second quarter, followed by Europe and North America in the third quarter. Throughout the year we levered our flexible operating platform to transition production and shipments to higher margin North American markets.

Sales

Lumber revenue grew to $737.2 million in 2020 from $628.3 million the prior year. Lumber revenue was impacted by COVID-19 and the Strike, which limited our BC based sawmill production from the third quarter of 2019 through the first quarter of 2020. Government emergency measures instituted to combat COVID-19 significantly impacted demand for our products as many customers suspended order activity in late March 2020 through mid-May 2020. We took this time to rebuild inventory depleted by the Strike, which allowed us to increase shipments as lumber markets gradually recovered through the period.

Despite challenges at the beginning of the year, we successfully increased Western Red Cedar shipments and capitalized on strong North American lumber markets by redirecting volume from weaker export markets to achieve record average lumber price realizations.

Log revenue was $200.5 million in 2020, an increase of 39% from the prior year when log production and sales were limited by the Strike. Log shipment volumes increased by 46%, led by a significant one-time increase in pulp log sales arising from degradation of logs encumbered from the Strike. A weaker log sales mix and the temporary impact of COVID-19 on log markets early in the year resulted in a 4% decline in average realized log prices.

By-products revenue decreased to $27.2 million in 2020, from $35.4 million in the prior year due to reduced chip purchase-and-resale volume, lower average annualized pricing, and temporary coastal pulp operating curtailments.

Operations

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

Lumber production in 2020 was 576 million board feet, 17% higher than last year. Lumber production was negatively impacted in the first half of 2020 by the Strike and COVID-19. We partly mitigated the impact of the Strike on our customers by continuing to process logs at custom cut facilities and through our wholesale lumber activity. Upon returning from the Strike, mid-year production volume and grade recovery were impacted due to processing log inventory that had degraded during the Strike. In the second half of 2020, we leveraged our flexible operating platform to increase the production of North American commodity lumber targeted to the treating segment.

After the resolution of the Strike in the first quarter of 2020, we resumed and maintained our timberlands operations through the remainder of 2020 despite significant uncertainty arising from COVID-19. By maintaining active timberlands operations, we rebuilt log inventories to support our sawmill operations. We resumed operations at our Cowichan Bay and Ladysmith sawmills in May and August 2020, respectively. To address increased remanufacturing capacity requirements for North American commodity production, we restarted our idled Cowichan Bay planer operation and increased utilization across our other remanufacturing facilities.

Log production for 2020 was 3,430,000 cubic metres, an increase of 55% from 2019. We delivered higher production by capitalizing on favourable operating conditions. Lower production costs resulted from a favourable mix of operations and by aligning our road expenditures to harvest volumes. No significant fire-related downtime was taken in either year.

BC coastal saw log purchases were 835,000 cubic metres in 2020, a 48% increase from the prior year despite lower overall non-Western coastal harvest activity.

Freight expense was $73.7 million in 2020, an increase of 15% due to significantly greater fourth quarter shipment volumes year-over-year and the geographic mix of sales.

Adjusted EBITDA and operating income included $34.6 million of CVD and AD expense on sales in 2020, as compared to $27.8 million in the same period of 2019. Increased export duty expense on sales was due to increased shipments of Western Red Cedar and commodity lumber to the US market. We recognized a $31.6 million export duty tax recovery against export tax expense in the 2020, upon the DoC's final determination on assessed rates for fiscal years 2017 and 2018. For further information on CVD and AD see *"Risks and Uncertainties"*.

Due to the negative financial impact and risk to employment that COVID-19 had on our business we applied for CEWS to support continued operations despite uncertainty; maintain employment; offset costs of enhanced health and safety protocols; support contractors and communities; rebuild inventory and continue to service our customers. In the first half of 2020, before our operating income began to recover, we recognized CEWS of $11.6 million as an offset to cost of goods sold, and $1.4 million as an offset to selling and administration expense.

Selling and Administration Expense

Selling and administration expense for 2020 was $36.7 million as compared to $31.1 million in the prior year. Savings generated by cost containment measures were offset by expenses arising from COVID-19, including health and safety spending and incremental IT costs associated with remote work requirements.

Improved financial performance drove an incremental $2.1 million of incentive compensation expense, while appreciation of the Company's share price led to an additional $2.5 million long-term compensation expense. Non-cash amortization recognized in selling and administration expense increased by $1.0 million primarily due to the replacement of certain foundational systems in 2019.

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

Finance Costs

Finance costs were $5.9 million in 2020 as compared to $7.8 million in 2019. In 2020, we recognized $2.2 million in interest income arising from export duty tax recovery that was not applicable to 2019, and this more than offset incremental interest expense from a higher average debt balance outstanding in 2020.

Other Expense

We recognized net other expenses of $5.2 million in 2020, including impairments of $3.6 million on non-core lands and a $0.2 million loss on asset dispositions partially offset by other income.

Other expense was $5.4 million in 2019, including $2.8 million fair value reduction in private timberlands and multiple lesser non-recurring expenses related to asset acquisitions and dispositions, and environmental remediation.

Net Income (Loss)

Net income was $33.4 million in 2020, as compared to net loss of $46.7 million in the Strike affected prior year. We improved net income in 2020 by increasing shipments to strong North American markets, redirecting production from weaker export markets and improved timberlands operating costs, offset by impacts of the Strike that was resolved early in the year. Net income includes CEWS proceeds applied to overcome COVID-19 market uncertainty and related incremental operating costs.

Operating Restructuring Items

We incurred $2.1 million of operating restructuring costs in 2020, including $1.6 million of non-operating costs incurred due to the indefinite curtailment of the Company's Somass sawmill in 2017.

Operating restructuring costs were $3.5 million in 2019, including $2.1 million of 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.

Income Taxes

Improved operating earnings led to the recognition of $14.6 million in income tax expense in 2020, as compared to income tax recovery of $16.7 million in 2019. Export tax recovery of $31.6 million and CEWS proceeds included in operating earnings contributed to increased 2020 income tax expense.

At December 31, 2020, the Company and its subsidiaries had unused non-capital loss carry forwards totaling approximately $18.2 million in Canada, and $5.8 million in the US, which can be used to reduce taxable income. In addition, the Company has unused capital losses carried forward of approximately $84.2 million in Canada, which are available indefinitely.

COVID-19

Western is committed to the health and safety of our employees, contractors and the communities where we operate. To help mitigate the spread of COVID-19, we have implemented strict health and safety protocols across our business that are based on guidance from health officials and experts, and in compliance with regulatory orders and standards.

Health and safety protocols currently being enforced include travel restrictions; self-isolation instructions for those who have travelled, are ill, exhibiting symptoms of COVID-19 or have come in direct contact with someone with COVID-19; implementing physical distancing measures; restricting site access to essential personnel and activities; increasing cleaning and sanitization in workplaces; and where possible, providing those who can work from home the ability to exercise that option. We continue to monitor and review the latest guidance from health officials and experts to ensure our protocols meet the current required standards.

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

State of Emergency declarations and other restrictions relating to travel, business operations and isolation have been made by governing bodies in the regions that Western operates and sells its products. Western's business activities have been designated an essential service in Canada and the US, and we will continue to monitor and adjust our operations as required to ensure the health and safety of our employees, contractors and the communities where we operate and to address changes in customer demand. In addition, governments in Canada and the US have announced various financial relief programs for businesses. In 2020, we recognized $13.0 million in CEWS as a reduction to cost of goods sold and selling and administrative expense. Western's eligibility for CEWS concluded in early June 2020, but we continue to evaluate our eligibility for relief programs as they are announced to help mitigate the financial impacts of COVID-19.

With the potential negative impacts to the global economy from COVID-19 and with dynamic global economic conditions, in the near-term we remain focused on maintaining financial flexibility, protecting the health and safety of our employees and contractors, and servicing our customers.

Sale of Ownership Interests in Limited Partnerships

On March 29, 2019, Western completed the sale of a 7% ownership interest in its newly formed TFL44 Limited Partnership ("TFL 44 LP") to Huumiis Ventures Limited Partnership ("HVLP"), a limited partnership beneficially owned by the Huu-ay-aht First Nations. Western received $7.3 million in exchange for the 7% ownership interest in TFL 44 LP.

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

The completion of each stage of the TFL 44 Transaction is subject to satisfaction of customary closing conditions, financing and certain third-party consents, including approval by the BC Provincial Government and the Huu-ay-aht First Nations People's Assembly. The first stage of the TFL 44 Transaction involves the acquisition by HVLP of a further 28% equity interest in TFL 44 LP, for an interim combined equity interest of 35%. The total payable by HVLP for the first stage of the TFL 44 Transaction is $22.4 million, $2.6 million of which will be financed through vendor take-back financing provided by the Company with a maturity date of March 31, 2023. The first stage is anticipated to close in the second quarter of 2021. The second stage of the TFL 44 Transaction, for the acquisition by HVLP of a further 16% equity interest in TFL 44 LP for total consideration of $12.8 million, is anticipated to close in the first quarter of 2023.

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

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

Labour Relations Update

On February 15, 2020, we announced that USW members had voted in support of a new 5-year collective agreement effective from June 15, 2019 and expiring on June 14, 2024.

On February 3, 2021, members of the PPWC representing unionized employees at our Ladysmith Sawmill ratified a new eight-year collective agreement effective from January 1, 2021 and expiring on December 31, 2028.

BC Government Forest Policies Update

During 2019, the BC Provincial Government (the "Province") introduced various policy initiatives that impact the BC forest sector regulatory framework as part of a Coastal Revitalization Initiative. For additional details on these policy initiatives please see *"Regulatory Risks"* under the heading *"Risks and Uncertainties".*

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

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

On September 16, 2020, the Province provided additional information with respect to the implementation of amendments to the Regulation, including the application of a tax on WRC and CYP exported from BC to any location outside of Canada and within 3,000 miles of BC. The Regulation requires provincial export permit applications and, where fully manufactured requirements are not met, payment of a tax in lieu of manufacture to be eligible for export. The amount of the tax factors in the extent of processing completed prior to export application, with the rate calculated as a proportion of the combined CVD and AD US export tax all others duty rate. For products shipped within the 3,000-mile export zone, the applicable BC export duty rate decreases by one third for each process performed prior to the export, with no fee applicable upon completing three processes. Certain other exemptions apply including rough appearance products ready for retail sale prior to export. These changes were effective September 30, 2020, with permitting requirements effective October 1, 2020 and the application of Provincial export tax effective November 1, 2020 onwards.

We have taken measures to limit financial impacts and mitigate any potential unintended consequences of the amended Regulation. Our mitigating actions include the use of exemptions, maximizing our planer capacity utilization, pursuing additional market processing capacity and reducing mill operating hours to manage inventory risk.

In December 2020, the Province updated its Variable Fee-in-Lieu of Domestic Manufacturing policy, increasing the tax applicable to BC coastal log exports. Fee-in-Lieu tax is determined using a variable percentage of the domestic market value of the log advertised for export. While this regulatory change may impact coastal harvest levels, we expect a higher tax on export logs could redirect certain volumes to domestic lumber manufacturers.

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

Timber Tenure Reduction

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

In the first half of 2021, we expect that the Province’s Chief Forester to issue a final determination on the AAC in TFL 19, which is approximately 729,000 cubic metres. We expect that determination may reduce the AAC of TFL 19 by up to 18% or approximately 130,000 cubic metres. Provincial legislation requires the Chief Forester to routinely review sustainable harvesting levels of individual tenures at least every 10 years and to issue a determination which may result in an increase or decrease to AAC. The AAC determination reflects tree growth, ecology, regional and local economic and social interests, water and other environmental considerations that define how forests can be managed.

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

Financial Position and Liquidity

(millions of Canadian dollars except where otherwise noted)	Q4 2020	Q4 2019	Q3 2020	Annual 2020	Annual 2019
Selected Cash Flow Items					
Operating Activities					
Net income (loss)	$ 34.4	$ (29.2)	$ 11.5	$ 33.4	$ (46.7)
Amortization	14.3	12.4	14.0	53.5	45.4
Income taxes refunded (paid)	-	-	5.3	16.7	(17.0)
Other	(10.0)	(1.3)	5.5	(8.8)	(11.2)
Subtotal	38.7	(18.1)	36.3	94.8	(29.5)
Change in non-cash working capital	21.7	24.9	4.0	(14.4)	40.0
Cash provided by (used in) operating activities	$ 60.4	$ 6.8	$ 40.3	$ 80.4	$ 10.5
Investing Activities					
Additions to property, plant and equipment	$ (5.9)	$ (1.4)	$ (1.5)	$ (9.8)	$ (26.7)
Additions to capital logging roads	(2.1)	(0.2)	(3.2)	(8.9)	(10.5)
Acquisition of assets from Columbia Vista Corporation	-	-	-	-	(37.7)
Proceeds from non-controlling interest	-	-	-	-	7.0
Other	2.5	2.4	0.1	4.2	4.7
Cash provided by (used in) investing activities	$ (5.5)	$ 0.8	$ (4.6)	$ (14.5)	$ (63.2)
Financing Activities					
Draw on (repayment of) credit facility	$ (49.5)	$ 1.3	$ (32.8)	$ (43.9)	$ 107.1
Dividends	-	(8.5)	-	(8.4)	(34.0)
Share repurchases	-	-	-	-	(15.9)
Other	(4.4)	(3.4)	(3.1)	(12.8)	(10.8)
Cash provided by (used in) financing activities	$ (53.9)	$ (10.6)	$ (35.9)	$ (65.1)	$ 46.4
Increase (decrease) in cash	$ 1.0	$ (3.0)	$ (0.2)	$ 0.8	$ (6.3)
Summary of Financial Position					
Cash and cash equivalents	$ 2.9	$ 2.1	$ 1.9		
Current assets	263.7	188.9	295.4		
Current liabilities	125.6	48.6	138.1		
Bank indebtedness	0.2	-	-		
Total debt, net of deferred financing costs	71.9	113.4	121.3		
Net debt (1)	69.2	111.3	119.4		
Equity, excluding non-controlling interest	504.5	481.8	471.1		
Total liquidity (2)	178.3	136.9	127.9		
Financial ratios:					
Current assets to current liabilities	2.10	3.89	2.14		
Net debt to capitalization (3)	12%	19%	20%		

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

Cash provided by operating activities in 2020 was $80.4 million as compared to $10.5 million in 2019. We generated strong operating cash flow in 2020 by capitalizing on improving lumber markets and continuing to operate despite significant uncertainty arising from COVID-19. Our cash from operations was significantly reduced in 2019 through the first quarter of 2020 due to the impacts of the Strike.

Cash used in investing activities in 2020 was $14.5 million, as compared to $63.2 million in 2019 that includes $45.0 million related to US asset acquisitions and related capital improvements. We managed capital spending in 2020 to address uncertainty caused by COVID-19, incurring only safety, environmental, maintenance and certain other committed capital expenditures. Capital expenditures were partly offset in both periods by cash proceeds from the sale of non-core assets. Investing activities in 2019 includes $7.0 million in proceeds from the sale of an ownership interest in TFL 44 LP. Our strategic capital program is discussed in more detail under *"Strategy and Outlook"*.

Cash used in financing activities in 2020 was $65.1 million, as compared to cash provided by financing activities of $46.4 million in 2019. We reduced net drawings on our credit facility in 2020 by $43.9 million. To provide the financial capacity to navigate uncertainty caused by COVID-19, on May 6, 2020 we announced the suspension of our quarterly dividend. We repurchased no common shares in 2020 as compared to share repurchases of $15.9 million in 2019. See *"Dividend and Capital Allocation*" for more information.

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 $178.3 million at December 31, 2020, compared to $136.9 million at the end of 2019. Liquidity is comprised of cash and cash equivalents of $2.9 million and unused availability under the credit facility of $175.4 million.

At December 31, 2020, the Company had contractual commitments to acquire property, plant and equipment in the amount of $0.3 million.

Based on our current forecasts, we expect sufficient liquidity will be available to meet these commitments as well as our other obligations in 2021. The Company was in compliance with all its financial covenants as at December 31, 2020.

Summary of Contractual Obligations

The following table summarizes our contractual obligations at December 31, 2020, and our payments due for each of the next five years and thereafter, including estimated interest payments:

(millions of Canadian dollars)	Total	2021	2022	2023	2024	2025	Thereafter
Accounts payable and accrued liabilities	$ 108.7	$ 108.7	$ -	$ -	$ -	$ -	$ -
Purchase commitments	10.6	10.6	-	-	-	-	-
Long-term debt	72.4	4.0	68.4	-	-	-	-
Equipment term loan	2.4	0.4	0.5	0.4	0.5	0.4	0.2
Lease liabilities	23.3	6.8	5.6	3.4	2.8	2.1	2.6
Reforestation obligation	22.6	8.1	3.9	2.4	1.6	1.2	5.4
Defined benefit pension plan funding obligation	12.6	1.4	1.4	1.4	1.4	1.4	5.6
	$ 252.6	$ 140.0	$ 79.8	$ 7.6	$ 6.3	$ 5.1	$ 13.8

Dividend and Capital Allocation

We remain committed to a balanced approach to capital allocation. To return capital to shareholders, we have reinstated a regular quarterly dividend and may complement it with common share repurchases under our renewed Normal Course Issuer Bid ("NCIB").

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

Quarterly Dividend

With the global economic uncertainty arising from COVID-19 and added financial requirements of resetting the business post-Strike, on May 6, 2020, the Company suspended its quarterly dividend to maintain financial flexibility.

The Company's Board of Directors have reinstated a quarterly dividend of $0.01 per common share. The next quarterly dividend will be payable on March 12, 2021, to shareholders of record on February 26, 2021. The dividend will return a portion of the Company's cash to shareholders, after taking into consideration liquidity and ongoing capital needs. The Company's Board of Directors will continue to review our dividend on a quarterly basis.

Normal Course Issuer Bid

On August 7, 2020, the Company renewed its NCIB permitting the purchase and cancellation of up to 18,759,858 of the Company's common shares or approximately 5% of the common shares issued and outstanding as of August 6, 2020. The Company also entered into an automatic share purchase plan with its designated broker to facilitate purchases of its common shares under the NCIB at times when the Company would ordinarily not be permitted to purchase its common shares due to regulatory restrictions or self-imposed blackout periods.

The Company's previous NCIB to purchase for cancellation up to 18,763,888 common shares expired on August 7, 2020. The Company did not purchase any common shares under the previous NCIB.

During 2020, the Company did not repurchase common shares such that 18,759,858 common shares remain available to be purchased under the renewed NCIB. The NCIB expires on August 10, 2021.

Strategy and Outlook

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

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 2020, we announced an agreement to sell an incremental ownership interest in TFL 44 LP 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. In 2020, we reached marketing and vendor purchase agreements with certain customers, increasing our lumber sales into North American Home Centre and Pro-Dealer sales channels.
- We created a new product branding strategy that differentiates our high-quality products in the North American Home Centre sales channel and is supporting increased demand for our products.

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. In 2020, this initiative led to the launch of our Japanese Cedar fencing lumber to complement our WRC product portfolio.
- We continue to evaluate opportunities to grow our business and long-term shareholder value.

Sales & Marketing Strategy Update

In 2020, we redirected lumber production from relatively weak export markets to the improving North American market. We purposely targeted sales to selected customers in the treating sector where our product mix could provide the most value. In the near term we anticipate North American pricing to remain above trend levels and will look to grow our presence in the specialty treated lumber sector.

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

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

Market Outlook

Robust North American lumber markets have continued into 2021, with the combination of strong demand and constrained supply delivering an unseasonably strong pricing environment. Export market demand has improved, which we believe will support higher pricing for our products in Japan and China. While volatility may linger, positive pricing momentum is expected to continue as the result of strong repair and renovation and construction segments, North American housing fundamentals, and relatively low market inventories. Looking long-term, increasing demand for carbon neutral products and improved recognition of lumber as the most sustainable building product on the planet will grow demand and benefit the forest sector.

Demand and pricing for our WRC and Niche products are expected to continue to improve as we benefit from the strength of the North American repair and renovation segment.

In Japan, declining housing starts in 2020 reduced demand for lumber. As supply adjusted to the new level of demand, inventories rebalanced. Despite weaker demand and increased competition from lower priced, subsidized Japanese domestic species, the improved inventory situation is expected to support higher pricing in the near-term.

We expect domestic saw log prices to increase in response to improving lumber markets, and greater competition from improved export markets.

The global Northern Bleached Softwood Kraft benchmark pulp price has improved early in the first quarter of 2021 and, if sustained, this could lead to modest improvements in pulp log and chip pricing.

Despite ongoing uncertainty arising from COVID-19 and the identification of new variants of the virus, we are hopeful that progress with vaccine roll-outs may positively influence lumber demand and pricing. We plan to utilize our flexible operating platform to adjust to market conditions and will continue to align our production volumes to match market demand.

Softwood Lumber Dispute

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 consists of significant volumes of high-value, appearance grade lumber, we are disproportionately impacted by these duties. For a comprehensive history of the softwood lumber trade dispute and related North American Free Trade Agreement ("NAFTA") challenge proceedings, please see "*Risks and Uncertainties"*.

Western expensed $34.6 million of export duties on its lumber shipments into the US in 2020 and recognized an offsetting export tax recovery of $31.6 million arising from the DoC's final determination on assessed rates for 2017 and 2018. Export duty tax was comprised of CVD and AD at a combined rate of 20.23% on all lumber Western sold into the US until November 31, 2020 and a combined rate of 8.99% effective December 1, 2020.

At December 31, 2020, Western had $123.6 million (USD $95.2 million) of cash on deposit with the US Department of Treasury in respect of these softwood lumber duties, of which $36.7 million (USD $29.3 million) is recognized in the Company's balance sheet arising from rate determinations in 2017 and 2020.

Including wholesale lumber shipments, our sales to the US market represent approximately 32% of our total revenue in 2020. Our distribution and processing centre in Arlington, Washington and our Columbia Vista division in Vancouver, Washington are expected to partially mitigate the damaging effects of duties on our products destined for the US market. We intend to leverage our flexible operating platform to continue to partially mitigate any challenges that arise from this trade dispute.

Non-GAAP Measures

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

(millions of Canadian dollars except where otherwise noted)	Q4 2020	Q4 2019	Q3 2020	Annual 2020	Annual 2019
Adjusted EBITDA					
Net income (loss)	$ 34.4	$ (29.2)	$ 11.5	$ 33.4	$ (46.7)
Add:					
Amortization	14.3	12.4	14.0	53.5	45.4
Changes in fair value of biological assets, net	1.2	1.4	0.6	2.4	2.3
Operating restructuring items	0.6	2.1	0.5	2.1	3.5
Other expense (1)	6.2	2.8	0.6	5.0	2.9
Finance costs (income)	(0.5)	2.2	2.0	5.9	7.8
Current income tax recovery	-	(3.4)	-	(0.1)	(13.0)
Deferred income tax expense (recovery)	15.1	(6.6)	4.4	14.7	(3.7)
Adjusted EBITDA	$ 71.1	$ (18.1)	$ 33.7	$ 116.8	$ (1.5)
Adjusted EBITDA margin					
Total revenue	$ 318.9	$ 80.1	$ 290.6	$ 964.9	$ 807.7
Adjusted EBITDA	71.1	(18.1)	33.7	116.8	(1.5)
Adjusted EBITDA margin	22%	-23%	12%	12%	-0%
Net debt to capitalization					
Net debt					
Total debt, net of deferred financing costs	$ 71.9	$ 113.4	$ 121.3		
Bank indebtedness	0.2	-	-		
Cash and cash equivalents	(2.9)	(2.1)	(1.9)		
Net debt	$ 69.2	$ 111.3	$ 119.4		
Capitalization					
Net debt	$ 69.2	$ 111.3	$ 119.4		
Add: Equity	504.5	481.8	471.1		
Capitalization	$ 573.7	$ 593.1	$ 590.5		
Net debt to capitalization	12%	19%	20%		

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

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

Costing and Valuation of Inventory

We cost our inventory using complex models that are required due to our integrated supply chain and the variability in the species and grades of log and lumber inventory. We cost our inventory at the average cost of production by facility, species and product for lumber and by end sort for each operation for logs. 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

A number of new and amended IFRS standards are not yet effective for the year ended December 31, 2020 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 2020, 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, 2020, the Company had forward contracts in place to sell an aggregate USD $59.5 million (2019: USD $12.0 million). An asset of $0.6 million (2019: 0.2 million) was recognized in relation to foreign exchange forward contracts outstanding as at December 31, 2020 which is included in trade and other receivables in the consolidated statement of financial position. A net gain of $4.1 million was recognized on contracts that matured during year (2019: net gain of $0.7 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, 2020.

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, 2020	Years ended December 31, 2019
Salaries, directors' fees and short-term benefits	$ 5.7	$ 4.5
Post-employment benefits	0.5	0.4
Share-based compensation, including mark-to-market adjustment	2.4	(1.2)
	$ 8.6	$ 3.7

Risks and Uncertainties

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

Public Health Crisis

The existence of a wide-spread public health crisis could have a material impact on the Company. A global pandemic resulting from a contagious disease (such as COVID-19) could impact the Company by having an adverse effect on our business, financial conditions and results of operations, including as a result of the corresponding effects on global economic activity; the business, operations, financial conditions and solvency of our customers; demand and pricing for our products; labour shortages; shipping and product delivery interruptions and shutdowns; supplier and service provider delays or disruption; increased cyber-security risk; as well as material impacts on our revenues, cash flow and liquidity. Government measures and restrictions relating to travel, business operations and isolation may directly affect our and our customers, suppliers and service providers operations and employees, and the demand for and pricing of our products.

In 2020, COVID-19 resulted in a one-week curtailment of certain operations to implement enhanced health and safety protocols, increased operating and administrative costs and temporarily deferred customer demand. The full extent of the impact of the COVID-19 pandemic on the Company will depend on many factors that, given the ongoing and dynamic nature of COVID-19, are highly uncertain and cannot be predicted. These factors include, without limitation, the duration and severity of the pandemic, further measures, restrictions and actions taken to contain the pandemic or new information that may emerge concerning the spread and severity of COVID-19.

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 and could have a material adverse effect on our operations or our financial position. Notable legislative changes and policy initiatives undertaken pursuant to the Coastal Revitalization Initiative to date are as follows:

- On April 1, 2019, the Province announced the creation of fibre recovery zones. Western estimates that approximately 70% of our timberland operations are impacted with the creation of fibre recovery zones. The impacts to our business include the potential for higher costs and lower log harvest volumes. In December 2019, the BC Minister of Forests, Lands, Natural Resource Operations and Rural Development ("Minister of Forests") indicated its intention to shrink the penalties and zones for fibre recovery zones.
- On May 16, 2019, the Province brought into force 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.
- On May 30, 2019, the Province brought into force Bill 22, Forest Amendment Act, 2019, amending the Forest Act to require tenure holders to receive approval from the Minister before disposing or transferring a tenure agreement to a third party. These amendments 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 July 17, 2019, the Province announced the appointment of a two-person panel to lead an Old Growth Strategic Review. On April 30, 2020, the panel provided a report, including recommendations, to the Minister of Forests that may inform a new approach to old-grow management for BC.
- In January 2020, the Province announced changes to the Manufactured Forest Products Regulation ("MFPR"). The amendments to the MFPR require timber 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. For additional information related to this regulation please see "BC Government Forest Policies Update" above.
- On December 15, 2020, the Province announced the application of a targeted fee-in-lieu of manufacturing for raw log exports harvested from cutting permits on the BC Coast.

In 2019 the Province became the first province in Canada to adopt the principles of the United Nations Declaration on the Rights of Indigenous Peoples ("UNDRIP") through the bringing into force of Bill 41, *Declaration on the Rights of Indigenous Peoples Act*. 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 Canadian 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 assets.

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 had agreed to compensate Western in the amount of $14.0 million for the partial tenure extinguishment.

The following litigation is currently outstanding in relation to forest tenures held by the Company:

- In January 2017, the Nuchatlaht First Nation filed a Notice of Civil Claim against Canada, the Province 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. 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.
- In May 2018, the Dzawada'enuxw First Nation filed a Notice of Civil Claim against, among others, Canada, the Province, and the Company. The Dzawada'enuxw 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 Dzawada'enuxw 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 is not requiring 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 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 is not requiring the Province or Western to file a response to the Petition at this time.

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 2021. 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 forest tenures.

The Company is currently unable to predict the outcome of these First Nation legal proceedings and negotiations on Western's ongoing operations, including operational delays, access to harvesting rights or impact on the Company's assets. 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 Province 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 Ministry of Forests 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 US International Trade Commission ("ITC") 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 imposed duties on Canadian shipments of softwood lumber into the U.S.

CVD was imposed by the DoC from April 28, 2017 through to August 25, 2017, at which time it was suspended until December 28, 2017 onwards. The DoC also made preliminary determinations on critical circumstances that resulted in a 90-day retroactive application of CVD from January 28 to April 27, 2017.

AD was imposed from June 30, 2017 through December 26, 2017, at which time it was suspended until December 28, 2017 onwards. The DoC also made preliminary determinations on critical circumstances that resulted in a 90-day retroactive application of AD from April 1 to June 29, 2017.

On January 3, 2018, the DoC published amended final determinations, resulting in CVD and AD rates of 14.19% and 6.04% respectively (combined rate of 20.23%) for "all other" Canadian lumber producers including Western. The 20.23% combined CVD and AD rates applied to Western for the majority of 2020.

The DoC's CVD and AD rates are subject to annual administrative reviews. On November 24, 2020, the DoC issued its final determination in the CVD and AD administrative review for 2017 and 2018, resulting in reduced final CVD and AD rates of 7.42% and 1.57% respectively (combined rate of 8.99%) for "all other" Canadian lumber producers including Western, effective December 1, 2020 until a final determination in the DoC's second administrative review.

On March 10, 2020, the DoC announced the second administrative review of CVD and AD investigations for shipments in the year ended December 31, 2019, the results of which are anticipated in late 2021. On January 5, 2021, the DoC announced the third administrative review of CVD and AD investigations for shipments in the year ended December 31, 2020, the results of which are anticipated in late 2021.

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. The Canadian Federal Government is appealing the U.S. findings and, as in previous trade cases, the softwood lumber dispute may take years to resolve through the legal process and remains open to a negotiated settlement at any time. Based on the foregoing, 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 Ministry of Forests. The Forest Act (British Columbia) (the "Forest Act") empowers the Ministry of Forests 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, 2020. Stumpage rates are also adjusted quarterly to reflect changes in lumber log prices, market variables including housing starts in the United States and Japan, and BC Coast harvest levels.

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, training 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 $8 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.

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. Approximately 1,500 Western employees represented by the USW are covered by a five-year collective agreement that was renewed in February 2020 and expires in June 2024. An agreement with the USW covering 2 clerical employees is in effect until December 2022. The PPWC represents the remaining unionized employees. PPWC members of our Ladysmith Sawmill are covered by a eight-year collective agreement that was ratified in February 2021 and expires in December 2028. The PPWC also represents the unionized employees at our Value-Added Remanufacturing operation with whom we have a collective agreement that runs through October 2021.

Should the Company be unable to negotiate an acceptable contract after any of these collective agreements expire with any of the unions, a strike or lockout could occur. A strike or lockout could involve significant disruption of operations, may affect our ability to meet the immediate needs of 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

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 2% and 7% 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 $3.5 million, and $0.2 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

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, 2020. 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.

In response to the COVID-19 pandemic, the Company implemented measures to enable physical distancing across its workforce and operations, including remote work. This change required certain processes and controls that were previously done or documented manually to be completed and retained in electronic form. The Company continues to monitor whether remote work arrangements have adversely affected the Company's ability to maintain internal controls over financial reporting and disclosure controls and procedures.

Despite the changes required by the current environment, the CEO and CFO confirm that there have been no changes or material weaknesses in the design or operating effectiveness of the Company's internal controls over financial reporting that have materially affected, or are reasonably likely to materially affect, the Company's internal controls over financial reporting during the year ended December 31, 2020.

Outstanding Share Data

As of February 18, 2021, there were 375,232,166 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, 2020, 5,260,670 options were granted, 35,000 previously granted options were exercised and 22,875 options were forfeited. As of February 18, 2020, 18,259,924 options were outstanding under our incentive stock option plan.

Additional Information

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

Management’s Discussion and Analysis – Appendix A

Summary of Selected Results for the Last Eight Quarters

(millions of Canadian dollars except per share amounts and where noted)		2020	2020 Q4	2020 Q3	2020 Q2	2020 Q1	2019	2019 Q4	2019 Q3	2019 Q2	2019 Q1
Average Exchange Rate – USD to CAD		**1.341**	1.303	1.332	1.386	1.344	**1.327**	1.320	1.321	1.337	1.329
Average Exchange Rate – CAD to USD		**0.746**	0.767	0.751	0.722	0.744	**0.754**	0.758	0.757	0.748	0.752
Financial Performance(5)											
Revenue											
Lumber		**$ 737.2**	$ 256.6	$ 208.6	$ 188.8	83.2	**$ 628.3**	66.1	109.7	233.6	218.9
Logs		**200.5**	53.4	73.7	60.5	12.9	**144.0**	12.1	27.4	63.3	41.2
By-products		**27.2**	8.9	8.3	7.0	3.0	**35.4**	1.9	4.5	13.4	15.6
Total revenue		**$ 964.9**	$ 318.9	$ 290.6	$ 256.3	$ 99.1	**$ 807.7**	80.1	141.6	310.3	275.7
Adjusted EBITDA		**$ 116.8**	$ 71.1	$ 33.7	$ 29.5	$ (17.4)	**$ (1.5)**	$ (18.1)	$ (16.6)	$ 15.1	$ 18.1
Adjusted EBITDA margin		**12%**	22%	12%	12%	-18%	**0%**	-23%	-12%	5%	7%
Earnings (loss) per share:											
Net income (loss), basic and diluted		**$ 0.09**	$ 0.09	$ 0.03	$ 0.02	$ (0.06)	**$ (0.12)**	$ (0.09)	$ (0.05)	$ -	$ -
Operating Statistics											
Lumber(1),(2)											
Production	mmfbm	**576**	180	192	143	61	**491**	34	48	206	202
Shipments - Total	mmfbm	**585**	204	165	152	64	**548**	44	90	211	203
Price	$/mfbm	**$ 1,260**	$ 1,258	$ 1,264	$ 1,242	$ 1,300	**$ 1,147**	$ 1,502	$ 1,219	$ 1,107	$ 1,078
Logs(3)											
Net production	000 m^3	**3,430**	901	1,138	1,224	167	**2,214**	21	21	1,250	922
Saw log purchases	000 m^3	**834**	222	235	236	141	**564**	34	84	238	208
Log availability	000 m^3	**4,264**	1,123	1,373	1,460	308	**2,778**	55	105	1,488	1,130
Shipments	000 m^3	**1,878**	471	679	587	141	**1,286**	135	246	536	369
Price(4)	$/$m^3$	**$ 104**	$ 113	$ 109	$ 103	$ 91	**$ 108**	$ 90	$ 111	$ 118	$ 112
Share Repurchases and Dividends											
Shares repurchased (millions)		**-**	-	-	-	-	**8.9**	-	1.2	3.8	3.9
Shares repurchased		**$ -**	$ -	$ -	$ -	$ -	**$ 15.9**	$ -	$ 1.9	$ 6.6	$ 7.4
Dividends paid		**$ 8.4**	$ -	$ -	$ -	$ 8.4	**$ 34.0**	$ 8.5	$ 8.4	$ 8.5	$ 8.6

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 average realized log price per cubic metre has been presented on a gross basis, which may include fee-in-lieu and shipping charges incurred on behalf customers to facilitate sales to export markets.
(5) Third and fourth quarter 2019 and first quarter 2020 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. This seasonality generally results in the Company increasing working capital utilization through its second quarter as it builds log inventory during optimal harvest conditions and builds lumber inventory in advance of seasonally high lumber demand.

Western Forest Products Inc.

DEFINING A HIGHER STANDARD™

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 18, 2021 is consistent with that contained in the Consolidated Financial Statements.

Western maintains systems of internal accounting controls, policies and procedures which it believes provides reasonable assurance as to the reliability of the financial records and the safeguarding of its assets. The internal accounting control process includes the prudent hiring and training of personnel, adoption and communication of appropriate policies, procedures and controls, and employment of an internal audit program.

The Board of Directors is responsible for ensuring that Management fulfills its responsibilities for financial reporting and internal controls. The Board exercises this responsibility primarily through its Audit Committee, which is composed solely of independent directors of the Company. The Audit Committee meets periodically with Management and the Company's independent Auditors to satisfy itself that each group is properly discharging its responsibilities and to review the consolidated financial statements and the independent Auditors' report thereon. The Company's independent Auditors have full and free access to the Audit Committee. The Audit Committee reports its findings to the Board of Directors for consideration in approving the consolidated financial statements for issuance to the shareholders. The Committee also makes recommendations to the Board with respect to the appointment and remuneration of the independent Auditors.

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"

Don Demens
President & Chief Executive Officer

"Stephen Williams"

Stephen Williams
Executive Vice President & Chief Financial Officer

February 18, 2021

KPMG LLP
PO Box 10426 777 Dunsmuir Street
Vancouver BC V7Y 1K3
Canada
Telephone (604) 691-3000
Fax (604) 691-3031

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 Entity), which comprise:

- the consolidated statements of financial position as at December 31, 2020 and December 31, 2019
- the consolidated statements of comprehensive income (loss) for the years then ended
- the consolidated statements of changes in equity 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 Entity as at December 31, 2020 and December 31, 2019, and its consolidated financial performance and its consolidated cash flows for the years then ended in accordance with International Financial Reporting Standards.

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 Entity in accordance with the ethical requirements that are relevant to our audit of the financial statements in Canada and we have fulfilled our other ethical 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.

Key Audit Matters

Key audit matters are those matters that, in our professional judgment, were of most significance in our audit of the financial statements for the year ended December 31, 2020. These matters were addressed in the context of our audit of the financial statements as a whole, and in forming our opinion thereon, and we do not provide a separate opinion on these matters.

We have determined the matters described below to be the key audit matters to be communicated in our auditors' report.

Assessment of log and lumber inventory net carrying value

Description of the matter

We draw attention to Note 4 to the consolidated financial statements. The inventory net carrying value is $177.9 million, of which $162.1 million relates to log and lumber inventory. The Entity records inventory at the lower of cost and net realizable value. The determination of cost involves the use of complex models. The Entity determines the cost of lumber inventory using the average cost of production based on the species and facility where they were produced and the cost of log inventory by end sort using the average cost of production by operation based on the operational area in which the logs were produced. Net realizable value is the estimated selling price in the ordinary course of business, less estimated costs of completion and selling expenses.

Why the matter is a key audit matter

We identified the assessment of the log and lumber inventory net carrying value as a key audit matter. This matter represented an area of significant risk given the magnitude of log and lumber inventory and the complexity of the models. In addition, significant auditor judgment was required to evaluate the Entity's selling prices used to estimate net realizable value.

How the matter was addressed in the audit

The primary procedures we performed to address this key audit matter included the following:

- We evaluated the design and tested the operating effectiveness of certain controls over the Entity's inventory models including controls over log and lumber production volumes which were an input into the models
- We assessed the logic used in the models in calculating the average cost of log and lumber inventory by testing the accuracy of calculations in the models for a selection of logging operations and lumber facilities
- For a selection of logging operations and lumber facilities, we compared the models' inputs for volumes and costs to production and cost reports. We assessed the models' outputs by comparing the average cost of lumber by species and facility and logs by operation to the prior year average cost
- We compared the Entity's estimated selling prices used in the determination of net realizable value to actual sales prices for sales made subsequent to year end and to market price publications by third party industry analysts.

Other Information

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

– the information included in Management's Discussion and Analysis filed with the relevant Canadian Securities Commissions.

– the information, other than the financial statements and the auditors' report thereon, included in the "Annual Report".

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 and remain alert for indications that the other information appears to be materially misstated.

We obtained the information included in Management's Discussion and Analysis filed with the relevant Canadian Securities Commissions and the information included in the "Annual Report," 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, 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 Entity'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 Entity or to cease operations, or has no realistic alternative but to do so.

Those charged with governance are responsible for overseeing the Entity'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 Entity'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 Entity'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 Entity 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 for the financial statements 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.
- Determine, from the matters communicated with those charged with governance, those matters that were of most significance in the audit of the financial statements of the current period and are therefore the key audit matters. We describe these matters in our auditors’ report unless law or regulation precludes public disclosure about the matter or when, in extremely rare circumstances, we determine that a matter should not be communicated in our auditors’ report because the adverse consequences of doing so would reasonably be expected to outweigh the public interest benefits of such communication.

KPMG LLP

Chartered Professional Accountants

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

Vancouver, Canada
February 18, 2021

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

	December 31, 2020	December 31, 2019
Assets		
Current assets:		
Cash and cash equivalents	$ 2.9	$ 2.1
Trade and other receivables	66.8	23.4
Inventory (Note 4)	177.9	132.0
Prepaid and other assets	16.1	14.7
Income taxes receivable (Note 11)	-	16.7
	263.7	188.9
Non-current assets:		
Property, plant and equipment (Note 5)	383.3	414.9
Timber licenses (Note 6)	105.0	109.2
Biological assets (Note 7)	53.6	56.0
Other assets (Note 8)	46.3	13.4
Deferred income tax assets (Note 11)	0.3	0.1
	$ 852.2	$ 782.5
Liabilities and Equity		
Current liabilities:		
Bank indebtedness	$ 0.2	$ -
Accounts payable and accrued liabilities	108.7	35.0
Current portion of long-term debt (Note 9)	0.4	-
Current portion of lease liabilities (Note 10)	6.2	4.9
Reforestation obligation (Note 13)	8.1	8.7
Deferred revenue (Note 25(b))	2.0	2.0
	125.6	50.6
Non-current liabilities:		
Long-term debt (Note 9)	71.5	113.4
Lease liabilities (Note 10)	15.4	15.0
Reforestation obligation (Note 13)	14.3	14.7
Deferred income tax liabilities (Note 11)	51.2	37.0
Other liabilities (Note 12)	20.2	18.8
Deferred revenue (Note 25(b))	48.4	50.4
	346.6	299.9
Equity:		
Share capital (Note 14)	479.9	479.9
Contributed surplus	10.4	9.6
Translation reserve	(1.9)	(0.9)
Retained earnings (deficit)	16.1	(6.8)
Total equity attributable to equity shareholders of the Company	504.5	481.8
Non-controlling interest (Note 30)	1.1	0.8
	505.6	482.6
	$ 852.2	$ 782.5

Commitments and contingencies (Note 18)

Subsequent events (Note 30)

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, 2020		Years ended December 31, 2019	
Revenue (Note 25)	$	964.9	$	807.7
Costs and expenses:				
Cost of goods sold (Note 4)		790.3		731.4
Freight		73.7		64.1
Export tax (Note 18)		3.0		27.8
Selling and administration (Note 27)		36.7		31.1
		903.7		854.4
Operating income (loss) prior to restructuring and other items		61.2		(46.7)
Operating restructuring items (Note 23)		(2.1)		(3.5)
Other expense (Note 21)		(5.2)		(5.4)
Operating income (loss)		53.9		(55.6)
Finance costs (Note 22)		(5.9)		(7.8)
Income (loss) before income taxes		48.0		(63.4)
Current income tax recovery (Note 11)		0.1		13.0
Deferred income tax (expense) recovery (Note 11)		(14.7)		3.7
		(14.6)		16.7
Net income (loss)		33.4		(46.7)
Net income (loss) attributable to equity shareholders of the Company		33.1		(46.3)
Net income (loss) attributable to non-controlling interest (Note 30(a))		0.3		(0.4)
		33.4		(46.7)
Other comprehensive income (loss)				
Items that will not be reclassified to profit or loss:				
Defined benefit plan actuarial gain (loss) (Note 19)		(2.5)		1.0
Income tax recovery (expense) on other comprehensive income (loss) (Note 11)		0.7		(0.3)
Total items that will not be reclassified to profit or loss		(1.8)		0.7
Items that may be reclassified to profit or loss:				
Foreign currency translation differences for foreign operations		(1.0)		(0.9)
Total comprehensive income (loss)	$	30.6	$	(46.9)
Earnings (loss) per share (in dollars)				
Basic and diluted (Note 16)	$	0.09	$	(0.12)

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, 2018	$ 491.1	$ 9.1	$ -	$ 72.7	$ -	$ 572.9
Net loss	-	-	-	(46.3)	(0.4)	(46.7)
Other comprehensive income (loss):						
Defined benefit plan actuarial gain recognized (Note 19)	-	-	-	1.0	-	1.0
Income tax expense on other comprehensive gain (Note 11)	-	-	-	(0.3)	-	(0.3)
Foreign currency translation differences for 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	-	0.6	-	-	-	0.6
Non-controlling interest (Note 30)	-	-	-	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 (Note 14)	-	-	-	(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

	Share Capital	Contributed Surplus	Translation Reserve	Retained Earnings (Deficit)	Non-controlling Interest	**Total Equity**
Balance at December 31, 2019	$ 479.9	$ 9.6	$ (0.9)	$ (6.8)	$ 0.8	$ 482.6
Net income	-	-	-	33.1	0.3	33.4
Other comprehensive income (loss):						
Defined benefit plan actuarial loss recognized (Note 19)	-	-	-	(2.5)	-	(2.5)
Income tax recovery on other comprehensive loss (Note 11)	-	-	-	0.7	-	0.7
Foreign currency translation differences for foreign operations	-	-	(1.0)	-	-	(1.0)
Total comprehensive income (loss)	-	-	(1.0)	31.3	0.3	30.6
Share-based payment transactions recognized in equity (Note 15(b))	-	0.8	-	-	-	0.8
Dividends (Note 14)	-	-	-	(8.4)	-	(8.4)
Total transactions with owners, recorded directly in equity	-	0.8	-	(8.4)	-	(7.6)
Balance at December 31, 2020	$ 479.9	$ 10.4	$ (1.9)	$ 16.1	$ 1.1	$ 505.6

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, 2020	Years ended December 31, 2019
Cash provided by (used in):		
Operating activities:		
Net income (loss)	$ 33.4	$ (46.7)
Items not involving cash:		
Amortization of property, plant and equipment (Note 5)	49.3	41.4
Amortization of timber licenses (Note 6)	4.2	4.0
Gain on disposal of assets	0.2	0.7
Impairment of land (Note 5)	3.6	-
Change in fair value of biological assets (Note 7)	2.4	2.3
Change in reforestation obligation (Note 13)	(1.0)	(2.2)
Amortization of deferred revenue (Note 25(b))	(2.0)	(2.0)
Share-based compensation, including mark-to-market adjustment (Note 15)	2.6	(1.3)
Net finance costs (Note 22)	5.9	7.8
Income tax expense (recovery) (Note 11)	14.6	(16.7)
Change in pension liability (Note 19)	(1.6)	(2.8)
Export tax receivable (Note 8 and 18)	(33.1)	0.2
Other	(0.4)	2.8
Income taxes refunded (paid)	16.7	(17.0)
	94.8	(29.5)
Changes in non-cash working capital items:		
Trade and other receivables	(41.8)	67.9
Inventory	(45.9)	49.6
Prepaid expenses and other assets	(1.3)	11.9
Accounts payable and accrued liabilities	74.6	(89.4)
	(14.4)	40.0
	80.4	10.5
Investing activities:		
Additions to property, plant and equipment (Note 5)	(18.7)	(37.2)
Acquisition of Columbia Vista Corporation (Note 29)	-	(37.7)
Proceeds from disposal of assets	4.2	4.7
Proceeds from disposition of minority interest in subsidiary, net (Note 30)	-	7.0
	(14.5)	(63.2)
Financing activities:		
Interest paid	(6.0)	(5.3)
Draw on (repayment of) credit facility (Note 9)	(43.9)	107.1
Repayment of long-term equipment loan (Note 9)	(0.2)	-
Payment of lease liabilities (Note 10)	(6.8)	(5.1)
Repurchase of shares	-	(15.9)
Dividends	(8.4)	(34.0)
Bank indebtedness	0.2	-
Proceeds from exercise of stock options, net (Note 15)	-	(0.4)
	(65.1)	46.4
Increase (decrease) in cash and cash equivalents	0.8	(6.3)
Cash and cash equivalents, beginning of year	2.1	8.4
Cash and cash equivalents, end of year	$ 2.9	$ 2.1

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 (“BC”) and in Washington State, United States (“US”). The address of the Company’s head office is Suite 800 – 1055 West Georgia Street, Vancouver, BC, Canada. The consolidated financial statements as at and for the years ended December 31, 2020 and 2019 comprise the financial results of the Company and its subsidiaries. The Company’s primary business is the sale of lumber and logs, which includes timber harvesting, sawmilling logs into specialty lumber, value-added lumber remanufacturing and wholesaling purchased lumber. The Company is listed on the Toronto Stock Exchange (“TSX”), under the symbol WEF.

2. Basis of preparation

(a) Statement of compliance

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 18, 2021.

(b) Basis of measurement

The consolidated financial statements have been prepared on the historical cost basis except for the following material items in the consolidated 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 at each reporting date;
- The defined benefit pension liability is recognized as the net of the fair value of the plan assets, less the present value of the defined benefit obligation; and
- Reforestation obligations and lease liabilities are measured at the discounted value of expected future cash flows.

(c) Functional and presentation currency

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

(d) Basis of consolidation

(i) Subsidiaries

Subsidiaries are entities controlled by Western and to which it has rights to variable returns and the ability to affect those returns through its power over the entity. These consolidated financial statements include the accounts of the Company’s subsidiaries from their respective dates of acquisition or incorporation.

The principal wholly-owned subsidiaries of the Company at December 31, 2020 are Western Lumber Sales Limited and Western Specialty Lumber Sales US LLC, which sell into the 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 the operating company, Western Forest Products US LLC. The Company also holds a 93% interest in the TFL44 Limited Partnership.

2. Basis of preparation (continued)

(d) Basis of consolidation (continued)

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

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

Interests in the joint venture are accounted for using the equity method and 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 including any unrealized income and expenses arising from inter-company transactions are eliminated upon consolidation. 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 transactions

Foreign currency transactions are translated into Canadian dollars at the transaction date exchange rate. Monetary assets and liabilities denominated in foreign currencies are revalued to Canadian dollars using the exchange rate at the reporting date. Foreign currency differences arising on revaluation are recognized in net income.

(f) Foreign operations

Certain of the Company's subsidiaries have a functional currency of the U.S. Dollar. On consolidation, revenues and expenses of such foreign operations are translated to Canadian Dollars at the transaction date exchange rate, or at average rates for the period which approximate the transaction date, as appropriate. Assets and liabilities are translated into Canadian Dollars at exchange rates in effect at the reporting date. Related foreign currency translation differences are recognized in other comprehensive income ("OCI") and recorded to the translation reserve in equity. On disposal of a foreign operation, the related cumulative foreign currency translation differences in the Translation reserve will be recognized in net earnings.

Monetary receivables from a foreign operation, the settlement of which are neither planned nor likely in the foreseeable future are considered to form part of the net investment in the foreign operation. Related foreign exchange translation differences are recognized in OCI and presented in the translation reserve in equity.

(g) 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)

(g) Use of estimates and judgements (continued)

(ii) Assumptions and estimation uncertainties

Information about the use of management estimates and judgements and estimation uncertainties that have a significant effect on the amounts recognized in the consolidated financial statements 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 13	Measurement of the present value of reforestation obligations: key assumptions on the likelihood and quantum of 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 quantum of outflow of resources
Note 19	Measurement of defined benefit obligations: key actuarial assumptions and recognition of termination benefits

Measurement of fair values – certain accounting policies and disclosures require financial and non-financial assets and liabilities to be measured at fair value. Fair value measurements, including Level 3 fair values, are defined in an established framework with regular review of significant unobservable inputs and valuation adjustments. Management obtains third party information to measure fair values and assesses the resulting valuations to ensure they meet IFRS requirements, including the level in the fair value hierarchy in which such valuations would be classified. To the extent possible, Western uses market observable data to establish the fair value of a financial instrument. Refer to Note 20 for more details.

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.

(h) Risks and uncertainties related to COVID-19

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

2. Basis of preparation (continued)

(h) Risks and uncertainties related to COVID-19 (continued)

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

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

3. Significant accounting policies

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

The Company reviews its non-financial assets for impairment whenever events or circumstances indicate that the carrying amount may not be recoverable.

For impairment testing, assets are grouped together at the lowest level for which there are separately identifiable cash inflows that are largely independent of the cash inflows from other assets or groups of assets (a cash generating unit “CGU”). The recoverable amount of a 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 CGU.

Impairment losses are recognized in net income. They are allocated first to reduce the carrying amount of goodwill (if any) assigned to the CGU, and then to reduce the carrying amounts of the other assets in the CGU on a pro-rata basis to the extent the carrying value of an asset exceeds the higher of its fair value and value in use.

Non-financial assets, other than goodwill, for which an impairment was previously recognized, are reviewed for possible reversal of the impairment at each reporting date. When an impairment loss is reversed, the increased carrying amount of the asset cannot exceed the carrying amount that would have been determined, net of amortization, had the impairment never been recognized.

(c) New standards and interpretations not yet adopted

Several new standards, and amendments to standards and interpretations, are not yet effective for the year ended December 31, 2020, and have not been applied in preparing these consolidated financial statements. None are currently considered by the Company to be significant or likely to have a material impact on future financial statements.

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

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).

Inventory cost includes purchase, production or conversion costs and other costs incurred in bringing them to their existing location and condition on a product by product basis.

Lumber inventories produced are costed at an average cost of production based on the species and facility where they were produced. Lumber inventories purchased from external sources are costed at purchase cost. NRV is the estimated selling price in the ordinary course of business, less the estimated costs of completion and selling expenses.

Log inventories produced are costed at an average cost of production based on the operational area in which the logs were produced. Log inventories purchased from external sources are costed at purchase cost. NRV of logs designated for lumber processing is based on estimated market log prices less estimated costs of completion and selling expenses, and on market replacement cost for logs held for sale.

Logs transferred from biological assets (standing timber) are costed at fair value less costs to sell at the date of harvest.

Supporting information

	December 31, 2020	December 31, 2019
Gross carrying value of inventory		
Logs	$ 112.6	$ 97.5
Lumber	58.5	35.4
Supplies and other	16.3	15.6
	$ 187.4	$ 148.5
Provisions		
Logs	$ (5.6)	$ (11.0)
Lumber	(3.4)	(5.0)
Supplies and other	(0.5)	(0.5)
	$ (9.5)	$ (16.5)
Total carrying value of inventory	$ 177.9	$ 132.0

The carrying amount of inventory recorded at net realizable value was $32.9 million at December 31, 2020 (2019: $47.5 million), with the remaining inventory recorded at cost.

During 2020, $790.3 million (2019: $731.4 million) of inventory was charged to cost of sales which includes a $7.0 million decrease (2019: $0.9 million increase) to the provision relating to inventory value write-downs.

5. Property, plant and equipment

Accounting policy

Property, plant and equipment are measured at cost, less accumulated depreciation and any accumulated impairment losses. Cost includes all expenditures directly attributable to bringing the asset to the location and condition necessary for its intended use. When major individual components of an item of property, plant or equipment have different useful lives, they are accounted for as separate items. Subsequent expenditures on an item of property, plant and equipment are capitalized only when it is probable that future economic benefits associated with the item will flow to the Company and the cost can be measured reliably.

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

5. Property, plant and equipment (continued)

Accounting policy (continued)

Maintenance costs are recorded as expenses as incurred, except for programs that extend the useful life of an asset or increase its value, for which costs are capitalized.

Depreciation is provided on a straight-line basis over the estimated useful lives of the related asset and after considering salvage values. Useful lives range from:

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

Certain roads are amortized on the basis of timber cut relative to available timber. Logging roads with an economic life of one year or less are expensed to cost of goods sold.

Depreciation methods, useful lives and residual values are reviewed annually and adjusted, if appropriate.

For Right of use ("ROU") assets, see Note 10.

Supporting information

See Note 29 for asset acquisition from Columbia Vista Corporation.

Cost	Buildings & equipment	Logging roads	Land	Right of use assets	**Total**
Balance at December 31, 2018	$ 413.7	$ 204.8	$ 88.9	$ -	$ 707.4
Adoption of IFRS 16, *Leases*	-	-	-	17.0	17.0
Additions	27.8	9.4	-	6.8	44.0
Assets acquired from Columbia Vista Corporation	21.0	-	10.6	0.8	32.4
Disposals	(1.1)	-	(5.2)	(0.6)	(6.9)
Effect of movements in exchange rates	(0.6)	-	(0.3)	-	(0.9)
Balance at December 31, 2019	460.8	214.2	94.0	24.0	793.0
Additions	11.9	8.6	0.3	8.1	28.9
Disposals	(5.7)	-	(5.4)	(0.3)	(11.4)
Transfers	(0.4)	-	-	0.4	-
Impairments	-	-	(3.6)	-	(3.6)
Effect of movements in exchange rates	(0.9)	-	(0.1)	(0.4)	(1.4)
Balance at December 31, 2020	$ 465.7	$ 222.8	$ 85.2	$ 31.8	$ 805.5
Accumulated amortization and impairments					
Balance at December 31, 2018	$ 167.5	$ 170.0		$ -	$ 337.5
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		4.6	378.1
Amortization	31.5	12.0		5.8	49.3
Disposals	(4.8)	(0.3)		(0.1)	(5.2)
Transfers	0.7	(0.7)		-	-
Effect of movements in exchange rates	(0.2)	-		0.2	-
Balance at December 31, 2020	$ 220.7	$ 191.0		$ 10.5	$ 422.2
Carrying value					
At December 31, 2019	$ 267.3	$ 34.2	$ 94.0	$ 19.4	$ 414.9
At December 31, 2020	$ 245.0	$ 31.8	$ 85.2	$ 21.3	$ 383.3

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

6. Timber licences

Accounting policy

Crown timber tenures are renewable contractual arrangements with the BC provincial government ("BC government") whereby the Company gains the right to harvest timber. The Company's timber licences are accounted for as acquired finite lived timber licences and accordingly are valued at acquisition cost less accumulated amortization and any accumulated impairment losses. Amortization is recognized on a straight-line basis over 40 years. Amortization methods, useful lives and residual values are reviewed, and adjusted if appropriate, at each reporting date.

Renewal costs associated with timber tenures are expensed as incurred.

Supporting information

	Years ended December 31, 2020	2019
Cost		
Balance at December 31	$ 170.7	$ 170.7
Accumulated amortization		
Balance at beginning of year	$ 61.5	$ 57.5
Amortization	4.2	4.0
Balance at December 31	$ 65.7	$ 61.5
Carrying value, December 31	$ 105.0	$ 109.2

7. Biological assets

Accounting policy

Standing timber on privately held forest land 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. Land underlying the standing timber is measured at cost and included in property, plant and equipment. Long-term roads and bridges on the land underlying the standing timber are recorded at cost less accumulated depreciation and included in property, plant and equipment.

Supporting information

(a) Reconciliation of carrying amount

	Years ended December 31, 2020	2019
Carrying value, beginning of year	$ 56.0	$ 58.3
Change in fair value less costs to sell (Note 21)	-	(2.8)
Change in fair value due to growth and pricing	1.3	5.6
Harvested timber transferred to inventory	(3.7)	(5.1)
Carrying value, December 31	**$ 53.6**	**$ 56.0**

At December 31, 2020, private timberlands comprised an area of approximately 23,293 hectares (2019: 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, 2020, the Company harvested and scaled approximately 252,883 cubic metres ("m^3") of logs from its private timberlands, which had a fair value less costs to sell of $118 per m^3 at the date of harvest (2019: 132,897 m^3 and $115 per m^3, respectively).

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

7. Biological assets (continued)

Supporting information (continued)

(b) Measurement of 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 $53.6 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, 2020	December 31, 2019
Investments	$ 8.8	$ 9.0
Export tax receivable (Note 18(a))	36.7	3.6
Deferred transaction costs	0.8	0.8
	$ 46.3	$ 13.4

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

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

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

9. Long-term debt (continued)

Supporting information (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).

The Company's Credit Facility was drawn by $70.2 million bearing a variable interest rate of 4.45% (2019: 5.45%) as at December 31, 2020. The Company was in compliance with its financial covenants at December 31, 2020.

On March 16, 2020, Western entered into a $2.2 million term loan agreement to finance an equipment purchase. The loan bears interest at 4.5% and matures March 16, 2026.

	December 31, 2020	December 31, 2019
Credit Facility drawings	$ 70.2	$ 114.1
Equipment term loan	2.1	-
Total debt	**72.3**	**114.1**
Less transaction costs	(0.4)	(0.7)
Less current portion, equipment term loan	(0.4)	-
Long-term debt	**$ 71.5**	**$ 113.4**
Available Credit Facility	$ 250.0	$ 250.0
Drawings on Credit Facility	(70.2)	(114.1)
Outstanding letters of credit	(4.2)	(1.1)
Unused portion of Credit Facility	**$ 175.6**	**$ 134.8**

	December 31, 2020	December 31, 2019
Opening balance	$ 114.1	$ 7.0
Equipment loan addition	2.2	-
Interest on equipment loan	0.1	-
Equipment loan repayments	(0.2)	-
Net drawings (repayments) on revolving term loan	(43.9)	107.1
Closing balance, total debt	**$ 72.3**	**$ 114.1**

10. Lease liabilities

Accounting policy

IFRS 16*, Leases* is applied to contracts entered into or modified 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.

At inception of a contract, the Company assesses whether 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.

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

10. Lease liabilities (continued)

Accounting policy (continued)

As a lessee

The Company recognizes a ROU asset and lease liability at the lease commencement date. At this date, the ROU 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. Any leasehold improvements are added to the related ROU asset.

The ROU asset is subsequently amortized using the straight-line method from the commencement date to the earlier of the end of the lease term or the useful life of the underlying asset. The ROU asset is reduced by any impairment losses, if any, and adjusted for remeasurements of the lease liability. The Company presents ROU assets in property, plant and equipment in its consolidated statement of financial position (see Note 5).

The lease liability is initially measured at the present value of the lease payments discounted using the interest rate implicit in the lease if readily determinable, or the Company's incremental borrowing rate. The lease payments include fixed payments, variable payments that depend on an index or rate, residual value guarantees, and the exercise price under a purchase option that the Company is reasonably certain to exercise.

The lease liability is measured at amortized cost using the effective interest method. It is remeasured when there is a change in the expected future lease payments as a result of a revision to the lease term, for example. Remeasurements to the lease liability are reflected in the ROU asset to the extent that the carrying value of the ROU asset exceeds the adjustment, and to other income (expense) in net income otherwise.

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

Supporting information

Changes in the lease liabilities are as follows:

	December 31, 2020	December 31, 2019
Lease liabilities, beginning of year	$ 19.9	$ -
At adoption of IFRS 16	-	17.0
Additions	7.8	7.6
Disposals	(0.2)	(0.4)
Finance costs	0.9	0.8
Lease payments	(6.8)	(5.1)
Lease liabilities, end of year	21.6	19.9
Less current portion	(6.2)	(4.9)
	$ 15.4	$ 15.0

The weighted average incremental borrowing rate used to determine lease obligations during the year ended December 31, 2020 was approximately 4.5% (2019: 4.5%).

In addition to the above, the Company recognized an expense of $3.4 million during the year ended December 31, 2020 (2019: $2.6 million), relating to short term and low value lease payments.

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

11. Income taxes

Accounting policy

Income tax expense comprises current and deferred income taxes. Current and deferred income taxes are recognized in net income except to the extent that they relate to items recognized directly in equity or in OCI, in which case they are recognized there.

Current and deferred income tax assets and liabilities are offset if there is a legally enforceable right to offset current tax liabilities and assets, and they relate to income taxes levied by the same tax authority on the same taxable entity, or on different taxable entities. The intention is to settle current tax liabilities and assets on a net basis or tax assets and liabilities will be realized simultaneously.

(a) Current tax

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

(b) Deferred income tax

Deferred income tax is recognized in respect of temporary differences between the carrying amounts of assets and liabilities for accounting purposes and the amounts used for taxation purposes. Deferred income tax is not recognized if it arises on 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.

Supporting information

	Years ended December 31,	
	2020	2019
Current tax recovery		
Current period	$ (0.1)	$ (13.0)
Deferred income tax expense (recovery)		
Origination and reversal of temporary differences	14.7	(3.7)
Total income tax expense (recovery)	$ 14.6	$ (16.7)

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,	
	2020	2019
Income tax expense (recovery) at the statutory rate of 27.00% (2019 - 27.00%)	$ 13.0	$ (17.1)
Difference in tax rates	0.6	0.6
Over (under) provided for in prior periods	0.2	(0.3)
Other permanent differences	0.1	(0.3)
Reinstatement of investment tax credits	-	0.4
Change in unrecognized deductible temporary differences	0.7	-
Total tax expense (recovery) - 30.50% (2019 - 26.38%)	$ 14.6	$ (16.7)

(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 OCI & Equity	Ending Balance
For the Year ended December 31, 2020				
Deferred income tax assets				
Tax loss carry-forwards	$ 7.5	$ (1.3)	$ -	$ 6.2
Employee future benefits obligation	4.4	(0.5)	0.7	4.6
Provisions and other	20.3	1.9	-	22.2
	32.2	0.1	0.7	33.0
Deferred income tax liabilities				
Intangible assets	(32.3)	0.3	-	(32.0)
Biological assets	(7.6)	0.4	-	(7.2)
Property, plant and equipment	(29.2)	(15.5)	-	(44.7)
	(69.1)	(14.8)	-	(83.9)
	$ (36.9)	$ (14.7)	$ 0.7	$ (50.9)
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)

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, 2020, the Company and its subsidiaries have unused non-capital tax losses carried forward totalling $5.8 million in the US (2019: $5.2 million) and $18.2 million in Canada (2019: $24.1 million), which can be used to reduce taxable income. The Company has unused capital losses carried forward of approximately $84.2 million (2019: $87.9 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, 2020	December 31, 2019
Temporary deductible differences	$ 27.1	$ 21.1
Capital loss carry-forwards	84.2	87.9
	$ 111.3	$ 109.0

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

12. Other liabilities

	December 31, 2020	December 31, 2019
Employee future benefits obligation (Note 19)	$ 16.1	$ 15.3
Environmental accruals	1.6	1.9
Performance share unit plan liabilities, non-current (Note 15(c))	1.1	0.2
Other	1.4	1.4
	$ 20.2	$ 18.8

13. Reforestation obligation

Accounting policy

The Company's provision for reforestation results from a legal obligation to reforest timber harvested from Crown land and arises as timber is harvested. Accordingly, the Company records the fair value of the costs of reforestation in the period in which the associated timber is harvested. The provision is measured at the expected value of future cash flows, discounted to their present value and determined according to the probability of alternative estimates of cash flows. Cash flows reflect the risks specific to the provision. As such, the discount rate reflects the current risk-free rate given that risks are incorporated into the future cash flow estimates and reflects current market assessments of the time value of money. Adjustments are made to the provision each reporting period for changes in the estimated timing or amount of cash flows, changes in the discount rate and the unwinding of the discount.

In periods subsequent to the initial measurement, changes in the liability resulting from revisions to estimated future costs are recognized in cost of goods sold in net income as they occur and revisions resulting from the passage of time, or accretion cost, are included in finance costs.

Reforestation on private timberlands is expensed as incurred.

Supporting information

Changes in the reforestation obligation are as follows:

	Years ended December 31, 2020	Years ended December 31, 2019
Reforestation obligation, beginning of period	$ 23.4	$ 25.7
Reforestation provision charged	5.6	5.5
Reforestation expenditures	(6.7)	(8.0)
Unwind of discount	0.1	0.2
Reforestation obligation, end of period	22.4	23.4
Less current portion	8.1	8.7
	$ 14.3	$ 14.7

The reforestation expenditures are expected to occur over the next one to ten years and have been discounted at risk-free rates of 0.17% to 0.68% (2019: 1.68% to 1.74%). The total undiscounted amount of the estimated future expenditures required to settle the reforestation obligation at December 31, 2020 is $22.7 million (2019: $24.3 million).

14. Share capital

Accounting policy

The Company's authorized capital consists of an unlimited number of common shares and preferred shares. Incremental costs directly attributable to the issuance of shares and share options are recognized as a deduction from equity, 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 shareholders to one vote per share. Issued and outstanding common shares are as follows:

	Number of Common Shares		Amount
Balance at December 31, 2018	383,740,519	$	491.1
Exercise of stock options	330,000		0.1
Repurchase of shares	(8,873,353)		(11.3)
Balance at December 31, 2019	375,197,166	$	479.9
Exercise of stock options	35,000		-
Balance at December 31, 2020	375,232,166	$	479.9

On March 13, 2020, the Company paid cash dividends of $0.0225 per common share, or $8.4 million in respect of the first quarter, 2020 and suspended dividends for the balance of 2020 (2019: four quarters - $34.0 million).

On August 7, 2020, Western renewed a Normal Course Issuer Bid (“NCIB”) permitting the purchase and cancellation up to 18,759,858 of the Company’s common shares or approximately 5% of the common shares issued and outstanding as of August 6, 2020. The NCIB expires on August 10, 2021. No shares were repurchased under this NCIB as of December 31, 2020.

In 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, of which $11.0 million was charged to share capital and $4.9 million charged to retained earnings. In addition to the common shares repurchased under the NCIB, 270,000 options were exercised with 330,000 common shares issued on a cashless basis, resulting in a decrease in share capital of $0.3 million.

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, accounting for these plans using the fair value method. The grant-date fair value of options is recognized as compensation expense, with a corresponding increase in contributed surplus, over the vesting period. Cash consideration received when an option is exercised is credited to Share capital, as is the related compensation expense previously recorded 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.

Deferred share units, performance share units and restricted share units

The Company has a Deferred Share Unit (“DSU”) Plan for non-executive directors, Performance Share Unit (“PSU”) Plan for directors, officers and certain other eligible employees and Restricted share unit (“RSU”) plan for officers and eligible employees. The Company uses the fair value method of accounting for obligations under these Plans, which are cash-settled.

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

15. Share-based compensation plans (continued)

Accounting policy (continued)

Deferred share units, performance share units and restricted share units (continued)

Compensation expense is recorded for DSUs and RSUs over the vesting period based on the fair value at the date of the grant. Compensation expense is recorded for PSUs over a three-year performance period, based on the fair value of the PSUs at the date of the grant.

The liabilities under the 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, of which 5,206,850 remain available for future issuance. Each option is exercisable, subject to vesting terms of 20% per year and immediately upon a change in control of the Company, into one common share, subject to adjustments, at a price of not less than the closing price of the common shares on the TSX on the day immediately preceding the grant date. Options granted under the Option Plan expire a maximum of ten years from the date of the grant. 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, 2020, the Company granted 5,260,670 options with a fair value of $0.8 million. Weighted average assumptions applied in the option pricing model included exercise price of $1.05, risk-free interest rate of 1.08%, a volatility rate of 39.74%, and an expected life of seven years.

The following table summarizes the change in options outstanding during the years ended December 31, 2020 and 2019:

	Year ended December 31, 2020			Year ended December 31, 2019		
	Number of Options	Weighted average exercise price		Number of Options	Weighted average exercise price	
Outstanding, beginning of year	13,057,129	$	1.80	11,965,357	$	1.73
Granted	5,260,670		1.05	2,487,950		1.94
Exercised	(35,000)		0.77	(600,000)		0.22
Forfeited	(22,875)		2.74	(796,178)		2.33
Outstanding, end of year	18,259,924	$	1.58	13,057,129	$	1.80

During the year ended December 31, 2020, 35,000 options were exercised for the issuance of common shares.

Details of options outstanding under the Option Plan as at December 31, 2020 are as follows:

Exercise Price	Number outstanding December 31, 2020	Weighted average remaining option life (years)	Weighted average exercise price		Number exercisable December 31, 2020	Weighted average exercise price	
$0.22 - $1.05	8,475,670	6.2	$	1.00	3,215,000	$	0.93
$1.27 - $1.97	4,727,806	5.7		1.75	2,706,611		1.60
$2.09 - $2.75	5,056,448	4.9		2.39	3,997,629		2.37
	18,259,924	5.7	$	1.58	9,919,240	$	1.70

In 2020, the Company recorded equity-based compensation expense for these options of $0.8 million (2019: expense of $0.6 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)

Supporting information (continued)

(b) *Deferred share unit plan*

The Company has a DSU Plan for non-executive directors who may elect to take a portion of their fees in the form of DSUs with the number of DSUs allotted 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. DSU holders are entitled to DSU dividends, equivalent to the dividend they would have received had 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.

Prior to January 1, 2015, DSUs were also granted to designated executive officers.

	Year ended December 31, 2020		Year ended December 31, 2019	
	Number of DSU	Weighted average unit value	Number of DSU	Weighted average unit value
Outstanding, beginning of year	1,739,691	$ 1.33	1,468,754	$ 1.32
Granted	731,509	0.87	320,425	1.44
Redeemed	-	-	(49,488)	1.71
Outstanding, end of year	2,471,200	$ 1.19	1,739,691	$ 1.33

In 2020, the Company recorded compensation expense for these DSUs of $0.4 million (2019: recovery of $0.9 million), with a corresponding increase 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 had they held their PSUs as common shares.

Performance targets are set by 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 range from 0% to 200% based on return on capital employed over a three-year performance period.

	Years ended December 31,	
	2020	2019
Outstanding, beginning of year	1,852,815	1,715,332
Granted	1,646,730	835,574
Redeemed	(661,241)	(577,130)
Forfeited	-	(120,961)
Outstanding, end of year	2,838,304	1,852,815

In 2020, the Company recorded compensation expense for these PSUs of $1.2 million (2019: recovery of $0.9 million), with a corresponding increase to accounts payable and accrued liabilities and other liabilities.

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

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

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

15. Share-based compensation plans (continued)

Supporting information (continued)

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

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

	Years ended December 31,	
	2020	2019
Outstanding, beginning of year	-	-
Granted	357,060	-
Outstanding, end of year	357,060	-

In 2020, the Company recorded compensation expense for these RSUs of $0.2 million (2019: $nil) with a corresponding increase to other liabilities.

16. Earnings per share

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

	Year ended December 31, 2020			Year ended December 31, 2019		
	Net income attributable to equity shareholders	Weighted Average Number of Shares	Per share	Net loss attributable to equity shareholders	Weighted Average Number of Shares	Per share
Issued shares at December 31		375,197,166			380,183,327	
Effect of shares issued		4,303			265,808	
Effect of shares repurchased in the year		-			(6,373,581)	
Basic earnings (loss) per share	$ 33.1	375,201,469	$ 0.09	$ (46.3)	374,075,554	$ (0.12)
Effect of dilutive securities:						
Stock options*		151,289			1,562,092	
Diluted loss per share	$ 33.1	375,352,758	$ 0.09	$ (46.3)	374,075,554	$ (0.12)

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

17. Capital requirements

The Company's strategy for managing capital is to maintain a capital position that provides financial flexibility. The Company incurs annual expenditures for the maintenance of capital assets, as well as to fund roads and bridges to access timber stands for harvesting purposes. The Company also evaluates various strategic and discretionary capital expenditures against internal return hurdles, with the objective of maximizing long-term shareholder value.

As at December 31, 2020, the Company had $70.2 million drawn in its debt facilities and a 12.1% net debt to capitalization ratio (2019: 18.8%). 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 its 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.

In 2013, the Company initiated a quarterly dividend program which is at the discretion of the Company's Board of Directors. In May 2020, in response to the uncertainties arising from the global economic impacts of COVID-19 and as a result of the financial impact of the United Steelworkers Local 1-1937 strike, the Company suspended its quarterly dividend.

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

17. Capital requirements (continued)

Due to COVID-19 and its impact on global markets and operating conditions, the Company incurred only essential and committed safety, environmental, maintenance and strategic capital expenditures in 2020. The Company will continue to evaluate opportunities to invest strategic capital in jurisdictions that create the opportunity to grow long-term shareholder value.

In 2020, the Company renewed an NCIB permitting the purchase and cancellation up to 18,759,858 common shares prior to August 10, 2021, and at the discretion of the Company's Board of Directors. As at December 31, 2020, no shares had been repurchased under this NCIB.

Under the Credit Facility agreement, the Company is subject to certain financial covenants. As at December 31, 2020, the Company is in compliance with all financial covenants.

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

18. Commitments and contingencies

(a) Softwood lumber duty dispute

Key dates

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

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

On February 3, 2020, the DoC issued preliminary revised rates in the CV and AD first administrative review of shipments for the years ended December 31, 2017 and 2018.

On March 10, 2020, the DoC initiated the second administrative review of CV and AD rates for shipments for the year ended December 31, 2019.

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

On January 5, 2021, the DoC announced the third administrative review of CV and AD rates for shipments for the year ended December 31, 2020.

The following table summarizes the cash deposit rates in effect and the final rates released on November 23, 2020.

	1 month ended December 31, 2020	11 months ended November 30, 2020	Years ended December 31, 2019	2018	2017
Cash deposit rate, CVD	7.42%	14.19%	14.19%	14.19%	14.19%
Cash deposit rate, AD	1.57%	6.04%	6.04%	6.04%	6.04%
Cash deposit rate, combined	8.99%	20.23%	20.23%	20.23%	20.23%
Final rate, CVD				7.42%	6.71%
Final rate, AD				1.57%	1.66%
Final rate, combined				8.99%	8.37%

18. Commitments and contingencies (continued)

(a) Softwood lumber duty dispute (continued)

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.

In the fourth quarter of 2017, the Company recorded an export tax recovery of USD$2.8 million (CAD$3.5 million) arising from the difference between export duties paid at preliminary determination rates and the latest final duty rates.

In the fourth quarter of 2020, the Company recorded an export tax recovery of USD$24.3 million (CAD$31.6 million) arising from the difference between export duties paid at preliminary determination rates and the final duty rates established after the first administrative review. This recovery was netted against export tax expense of CAD$34.6 million, resulting in a net export tax of CAD$3.0 million as recorded in the consolidated statement of comprehensive income.

The Company also accrued USD$1.7 million (CAD$2.2 million) in interest receivable on the export tax recovery for 2018 shipments, utilizing interest rate methodology and rates published in the US Federal Register. This interest revenue was netted against interest expense in the consolidated statement of comprehensive income.

Total export tax receivable of USD$29.3 million, including interest is recorded in other assets in the consolidated statement of financial position and was revalued at the year-end exchange rate to CAD$36.7 million. Related foreign exchange losses of $0.8 million for 2020 (2019: negligible) were recorded in other expense (see Note 21).

As at December 31, 2020, the Company had paid $123.6 million of duties, all of which remain held in trust by U.S. Department of Treasury (2019: $90.9 million). All duty deposits except $36.7 million noted above have been expensed at the cash deposit rates in effect at the date of payment.

(b) Manufactured Forest Products Regulation

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

(c) Litigation and claims

In the normal course of business, the Company may be subject to claims and legal actions that may be made by customers, unions, suppliers and others in respect of which either provision has been made or for which no material liability is expected. Where the Company is unable to determine the outcome of these disputes no amounts have been accrued in these consolidated financial statements.

(d) Long-term fibre supply agreements

Accounting policy

Deferred revenue is the result of the contractual obligations incurred upon the acquisition of the Englewood Logging Operation in March 2006, and calls for Western to deliver a specified volume of fibre (chips and pulp logs) over the term of the contract. Accordingly, the deferred revenue is amortized into net income for the period on a straight-line basis over 40 years, being the term of the related fibre supply contract.

18. Commitments and contingencies (continued)

(d) Long-term fibre supply agreements (continued)

Supporting information

The Company has several long-term commitments to supply fibre to third parties including a 40-year agreement, entered into on March 17, 2006 in conjunction with its acquisition of the Englewood Logging Division ("Englewood"). As consideration for entering into this agreement, the Company received a price premium of $80.0 million earned as wood chips are delivered over the contract term, of which $45.0 million was set-off against the consideration due by the Company on its acquisition of the Englewood assets. The Company recorded the price premium as deferred revenue (Note 25(b)) and granted a first charge over the acquired assets 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, if unable to produce the minimum volume, may require the Company to conduct whole log chipping, sell saw logs, purchase chips or pulp logs or incur a penalty under the fibre supply agreements. If the Company takes any significant 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 where it is not possible to secure replacement chips on the open market. From July 2019 through February 2020, the Company's BC sawmills were curtailed as a result of strike action by the United Steelworkers Local 1-1937 but was able to meet its commitments under the agreements based on the exercise of force majeure provisions.

Based on the exercise of force majeure provisions in connection with strike action by the United Steelworkers Local 1-1937, the Company satisfied annual fibre commitments for the year ended December 31, 2020.

(e) Bond obligations

As at December 31, 2020 the Company posted $6.1 million in bid bonds (2019: $5.0 million) for purchases under timber sales agreements, with expiry dates extending through October 2023 and $3.2 million in customs bonds (2019: $6.5 million) for softwood lumber duties, with an expiry of February 2021.

(f) Purchase commitments

As at December 31, 2020, the Company had contracts to acquire property, plant and equipment totalling $0.3 million (2019: $7.5 million) and contractual commitments of $10.3 million (2019: $8.7 million) for purchases of lumber for wholesale programs.

(g) Pension funding commitments

The Company has funding requirements under its defined benefit pension plan of $1.4 million for 2021 and an estimated $1.4 million per year on average for 2022 to 2029, 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 a cost for restructuring that includes the payment of termination benefits.

(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 expected payments 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 reliably estimated.

19. Employee benefits (continued)

Accounting policy (continued)

(c) Employee future benefits (continued)

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.

The defined benefit plan provides a specified pension benefit to be received by an employee after 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 discounted to present value, and offset by the fair value of the plan assets. The calculation is performed annually by a qualified actuary using the actuarial cost projected unit credit method.

When the calculation gives rise to a pension asset, 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 and the effect of the asset ceiling test are recognized immediately in other comprehensive income. The Company calculates the net interest expense (income) on the liability by applying the discount rate used to measure the defined benefit obligation at the beginning of the year to liability, considering any changes in the net defined benefit liability over the year as a result of contributions and benefit payments. Net interest and other expenses related to defined benefit plans are recognized in net income.

Where a defined benefit plan's benefits are altered or 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.

Western also makes fixed contributions to privately administered investment funds on behalf of defined contribution 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 as 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 as services are rendered by employees. The Company has no further payment obligations once the contributions have been paid.

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

19. Employee benefits (continued)

Supporting information

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

	December 31, 2020		December 31, 2019	
	Salaried Pension Plans	Non-pension Plans	Salaried Pension Plans	Non-pension Plans
Plan assets:				
Fair value, beginning of year	$ 113.1	$ -	$ 106.0	$ -
Company contributions	2.3	0.2	3.2	0.3
Benefits and administrative expenses paid	(8.2)	(0.2)	(8.6)	(0.3)
Actual return on assets	8.9	-	12.5	-
Fair value, end of year	$ 116.1	$ -	$ 113.1	$ -
Accrued benefit obligation:				
Balance, beginning of year	$ 125.5	$ 2.9	$ 122.0	$ 3.0
Current service costs and administrative expenses	0.3	-	0.3	-
Benefits and administrative expenses paid	(8.2)	(0.2)	(8.6)	(0.3)
Interest cost	3.7	0.1	4.2	0.1
Actuarial loss	7.9	0.2	7.6	0.1
Balance, end of year	$ 129.2	$ 3.0	$ 125.5	$ 2.9
Deficit recognized in statement of financial position (Note 12)	$ (13.1)	$ (3.0)	$ (12.4)	$ (2.9)
Cumulative actuarial gains (losses), beginning of year	$ (36.0)	$ 2.9	$ (37.1)	$ 3.0
Actuarial gains (losses) recognized directly in OCI	(2.3)	(0.2)	1.1	(0.1)
Cumulative actuarial gains (losses), end of year	$ (38.3)	$ 2.7	$ (36.0)	$ 2.9

	December 31, 2020		December 31, 2019	
	Salaried Pension Plans	Non-pension Plans	Salaried Pension Plans	Non-pension Plans
Experience gains:				
Experience gains on plan assets:				
Amount	$ 5.6	n/a	$ 8.8	n/a
Percentage of plan assets	4.80%	n/a	7.80%	n/a
Experience gains on plan liabilities:				
Amount	$ 0.7	$ -	$ 0.7	$ -
Percentage of plan assets	0.54%	0.00%	0.58%	0.00%

The Company has several funded and unfunded defined benefit plans, a defined contribution pension plan and a group registered retirement savings plan which 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, 2020 were $12.4 million (2019: $12.2 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.

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

19. Employee benefits (continued)

Supporting information (continued)

The Company measures the fair value of plan assets and the accrued benefit obligations for its defined benefit plans for accounting purposes annually at December 31. 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 is scheduled for December 31, 2021. Included in the accrued benefit obligations and plan assets for salaried pension plans, are accrued benefit obligations of $124.0 million at December 31, 2020 (2019: $119.8 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, 2020	December 31, 2019
Equity securities	26%	27%
Debt securities	71%	71%
Other	3%	2%
	100%	100%

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

	December 31, 2020	December 31, 2019	December 31, 2020 Increase (Decrease) of Accrued Benefit Obligation with Change in Assumption 1% Increase	1% Decrease
Discount rate, beginning of year for:				
Pension plans	2.98%	3.60%	n/a	n/a
Non-pension plans	2.95%	3.45%	n/a	n/a
Discount rate, end of year for:				
Pension plans	2.33%	2.98%	(13,128,100)	15,866,700
Non-pension plans	2.10%	2.95%	(252,400)	292,300
Rate of compensation increase for all plans	0.01%	0.01%	48,400	(45,100)
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	153,600	(160,100)
Future mortality	n/a	n/a	(386,100)	412,900

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

	December 31, 2020 Salaried Pension Plans	December 31, 2020 Non-pension Plans	December 31, 2019 Salaried Pension Plans	December 31, 2019 Non-pension Plans
Defined benefit plans:				
Current service costs and administrative expenses	$ 0.3	$ -	$ 0.3	$ -
Net interest costs	0.3	0.1	0.5	0.1
Total cost of employee post-retirement benefits	$ 0.6	$ 0.1	$ 0.8	$ 0.1

The Company is committed to make funding contributions to its defined benefit plans of $1.3 million during 2021.

19. Employee benefits (continued)

Supporting information (continued)

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 2020, such contributions amounted to $6.7 million (2019: $4.9 million).

20. Financial instruments – fair values and risk management

Accounting policy

IFRS 9, *Financial Instruments* 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"), depending upon the business model in which a financial asset is managed and its contractual cash flow characteristics.

A financial asset is measured at amortized cost if it meets both of the following conditions:

- 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.

All financial assets not measured at amortized cost or FVOCI are measured at FVTPL. This includes all derivative financial assets including foreign currency forward contracts and export tax receivable.

Cash and cash equivalents, short-term investments expected to be held to maturity, and trade and other receivables are categorized as amortized cost and are initially measured at fair value plus any direct transaction costs and thereafter at amortized cost using the effective interest rate method, less any impairment losses. The Company applies an "expected credit loss" ("ECL") model to calculate the impairment of financial assets.

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

(b) Financial liabilities

Financial liabilities are recognized for contractual obligations to deliver cash or other financial assets or exchange financial assets or financial liabilities under potentially unfavourable conditions.

Trade payables and provisions, lease liabilities, and loans and borrowings including long term debt are categorized as other financial liabilities and are initially measured at fair value on the transaction or origination date less any related transaction costs and thereafter at amortized cost using the effective interest rate method. The Company derecognizes a financial liability when its contractual obligations are discharged, cancelled, or expire.

(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. The Company's policy is not to use derivative financial instruments for trading or speculative purposes and has not designated these instruments as hedges for accounting purposes. Measured at FVTPL, the Company records these contracts at fair value on the consolidated statement of financial position with changes in value recognized as gains or losses within sales in net 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)

(c) Derivative financial instruments (continued)

Financial assets and liabilities are offset, and the net amount presented in the consolidated 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, 2019.

		December 31, 2020			December 31, 2019		
	Level	Mandatory at at FVTPL	Amortized Cost	Total	Mandatory at FVTPL	Amortized Cost	Total
Financial assets							
Market-based investments	2	$ 4.8	$ -	$ 4.8	$ 4.9	$ -	$ 4.9
Foreign currency forward contracts	2	0.6	-	0.6	0.2	-	0.2
Cash and cash equivalents	2	-	2.9	2.9	-	2.1	2.1
Trade and other receivables	3	-	66.2	66.2	-	23.2	23.2
Export tax receivable (Note 8)	3	36.7	-	36.7	3.6	-	3.6
Total financial assets		$ 42.1	$ 69.1	$ 111.2	$ 8.7	$ 25.3	$ 34.0
		Mandatory at FVTPL	Other Financial Liabilities	Total	Mandatory at FVTPL	Other Financial Liabilities	Total
Financial liabilities							
Accounts payable and accrued liabilities	2	$ -	$ 108.7	$ 108.7	$ -	$ 35.0	$ 35.0
Lease liabilities (Note 10)	2	-	21.6	21.6	-	19.9	19.9
Long term debt (Note 9)	2	-	72.3	72.3	-	114.1	114.1
Total financial liabilities		$ -	$ 202.6	$ 202.6	$ -	$ 169.0	$ 169.0

(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.

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 only engages in foreign exchange forward contract trading activities to mitigate exposure to foreign currency fluctuations.

(i) Credit risk

Credit risk is the risk of financial loss to the Company should a customer or counterparty to a financial instrument fail to meet its contractual obligations and arises primarily from the Company's receivables from customers. The carrying amount of the Company's financial assets represents its maximum credit exposure.

Cash and cash equivalents

The Company held cash and cash equivalents of $2.9 million at December 31, 2020 (2019: $2.1 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.

(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)

(i) Credit risk (continued)

Accounts receivable

The Company's exposure to credit risk is influenced mainly by the individual characteristics of each customer. The Company has established policies and controls to review the creditworthiness of new customers, including review of external credit ratings, and bank and other references. Purchase limits are established for each customer and are regularly reviewed. In some cases, where customers fail to meet the Company's benchmark creditworthiness, the Company may choose to transact with the customer based on terms which are secured by a guarantee or cash deposit or alternatively by insuring the accounts receivable.

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 log and lumber sales outside of North America are sold on either a cash basis or secured by irrevocable letters of credit, which limits the Company's credit exposure.

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 influence credit risk. The Company has determined that there is no concentration of credit risk either geographically or by counterparty.

The Company regularly reviews the collectability of its accounts receivable and establishes an allowance for doubtful accounts based on its best estimate of any potentially uncollectible accounts. The allowance for doubtful accounts was negligible as at December 31, 2020 and 2019.

The aging of trade and other receivables as at December 31 was as follows:

	December 31, 2020		December 31, 2019	
	Gross value	Impairment	Gross value	Impairment
Not past due	$ 63.1	$ -	$ 22.6	$ -
Past due 0-30 days	2.1	-	0.3	-
Past due 31-120 days	1.0	-	0.5	-
	$ 66.2	$ -	$ 23.4	$ -

Other assets

The Company has recognized a long-term receivable from the DoC for recovery of export tax and accrued interest thereon totalling $36.7 million (see Note 18(a)).

Although the timing of receipt of the refund remains uncertain, the collectability has minimal risk as the amounts are supported by published rates and established interest rates and calculation provisions in the US Federal Register, and responsibility for payment lies with the US Department of Treasury, considered to be extremely low credit risk.

Guarantees

The Company did not provide any guarantees in 2020 and 2019.

(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, 2020, an increase of 1% in interest rates would result in a decrease of $0.7 million to annual net income (2019: $0.8 million). The Company does not currently use derivative instruments to reduce its exposure to interest rate risk.

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

(e) Financial risk management (continued)

(iii) Currency risk

The Company is exposed to currency risk on cash and cash equivalents, accounts receivable, duty deposits and recoveries, accounts payable and provisions and intercompany loans that are denominated in a currency other than the respective functional currencies of the Company's domestic and foreign operations.

Most of the Company's sales transactions are denominated in foreign currencies, primarily, the USD and Japanese Yen ("JPY"), exposing the Company to currency risk associated with changes in foreign exchange rates. The Company routinely assesses its foreign exchange exposure and may use foreign currency exchange forward, collar and option contracts to manage its currency risk. The Company does not consider the credit risk associated with the counterparty risk to be significant.

During 2020, 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, 2020, the Company had outstanding obligations to sell an aggregate US$59.5 million at an average exchange rate of CAD$1.2832 per USD with maturities through February 25, 2021 (2019: USD$12.0 million at an average exchange rate of CAD1.3160 per USD).

Foreign currency gains of $4.1 million (2019: $0.7 million) on forward contracts to December 31, 2020 have been recognized in sales in the consolidated statement of comprehensive income and the $0.6 million (2019: $0.2 million) fair value of these instruments is included in trade and other receivables on the consolidated statement of financial position as at December 31, 2020.

An increase of 1% in the value of the CAD relative to the USD would result in a loss of approximately $0.7 million in relation to the USD foreign exchange contracts held at December 31, 2020.

Certain receivable balances at December 31, 2020 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, 2020, the Company's accounts and other receivables denominated in USD totaled USD$24.2 million. An increase of 1% in the value of the Canadian dollar relative to the USD would result in a decrease of $0.3 million to accounts and other receivables.

At December 31, 2020, the Company held USD$2.1 million in cash and cash equivalents. An increase of 1% in the value of the Canadian dollar relative to the USD would have a negligible impact.

(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.

(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)

(v) Liquidity risk (continued)

As at December 31, 2020, the Company had $175.6 million (2019: $134.8 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	$ 108.7	$ 108.7	$ 108.7	$ -	$ -	$ -	$ -
Lease liabilities	21.6	23.3	3.9	2.9	8.9	5.0	2.6
Equipment term loan	2.1	2.4	0.2	0.2	0.9	0.9	0.2
Long-term debt	70.2	72.4	2.0	2.0	68.4	-	-
	$ 202.6	$ 206.8	$ 114.8	$ 5.1	$ 78.2	$ 5.9	$ 2.8

21. Other expense

	Years ended December 31, 2020	2019
Impairment of property, plant and equipment (Note 5)	$ (3.6)	$ -
Redmediation provision	(0.7)	(2.8)
Change in fair value of biological assets (Note 7)	-	(0.7)
Foreign exchange on export tax receivable (Note 18(a))	(0.8)	-
Loss on disposal of assets	(0.2)	-
Other	0.1	(1.9)
	$ (5.2)	$ (5.4)

22. Finance costs

Accounting policy

Finance costs comprise interest expense on long-term debt and lease liabilities, amortization of deferred financing costs, unwinding of the discount on the reforestation obligation, net interest on the defined benefit plan obligation and interest accrued on the export tax receivable (see Note 18(a)). 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, 2020	2019
Long-term debt	$ 6.5	$ 5.7
Finance costs - lease liabilities	0.9	0.8
Net interest - defined benefit plan obligation	0.4	0.6
Amortization of deferred financing costs	0.3	0.3
Unwinding of discount on provisions	0.1	0.2
Interest on export tax receivable	(2.2)	-
Other	(0.1)	0.2
	$ 5.9	$ 7.8

23. Operating restructuring items

Restructuring costs of $2.1 million in 2020 (2019: $3.5 million) include $1.6 million (2019: $1.4 million) of non-operating costs incurred subsequent to the indefinite curtailment of the Company's Somass sawmill, and $0.5 million (2019: $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 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, lumber manufacturing and log and lumber sales in world-wide markets.

A geographical segment is engaged in providing products or services within a particular economic environment subject to risks and returns that are different from those of segments operating in other economic environments.

The Company manages its business as a single operating segment, with the majority of Western's property, plant and equipment, biological assets and timber licences located in BC, Canada. The Company harvests and purchases logs which it manufactures into lumber at the Company's sawmills, and sells its logs and lumber in world-wide markets. Supporting information is included in Note 25.

25. Revenue

Accounting policy

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

Amounts charged to customers for shipping and handling are recognized as revenue as services are provided, and shipping and handling costs 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 sales contract, but is typically when lumber is loaded onto the mode of transportation. The 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 sales contract, but is typically at the time logs are loaded onto the vessel or delivered to the transfer point, and payment is secured. No early payment discounts are offered for log sales.

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 sales contract, but is typically at the time by-products leave the Company's facilities or are scaled at the pick-up location. No early payment discounts are offered for by-product sales.

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

25. Revenue (continued)

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 product.

	Years ended December 31, 2020	Years ended December 31, 2019
Primary geographical markets		
Canada	$ 328.7	$ 275.9
United States	311.2	216.2
China	158.2	133.5
Japan	104.4	118.6
Other	46.3	47.5
Europe	16.1	16.0
	$ 964.9	$ 807.7
Major Products		
Lumber	$ 737.2	$ 628.3
Logs	200.5	144.0
By-products	27.2	35.4
	$ 964.9	$ 807.7

(b) Contract balances

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

	December 31, 2020	December 31, 2019
Trade and other receivables	$ 66.2	$ 23.4
Contract liabilities	50.4	52.4

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 (see Note 18(d)). The contract liabilities decreased $2.0 million during the year ended December 31, 2020 (2019: $2.0 million) as the amount was recognized as revenue.

The trade and other receivables balance increased $42.8 million during the year as operations resumed normal operating levels following the end of the United Steelworkers Local 1-1937 strike.

(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 2020 and 2019 Annual Reports as applicable.

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

26. Related parties (continued)

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, 2020	2019
Salaries, directors' fees and short-term benefits	$ 5.7	$ 4.5
Post-employment benefits	0.5	0.4
Share-based compensation, including mark-to-market adjustment	2.4	(1.2)
	$ 8.6	$ 3.7

At December 31, 2020, $6.7 million of key management compensation costs were included in accounts payable and accrued liabilities and other liabilities (2019: $3.5 million).

27. Expense categorization

Expenses by function:

	Years ended December 31, 2020	2019
Administration	$ 25.7	$ 19.9
Distribution expenses	87.7	103.1
Cost of goods sold	790.3	731.4
	$ 903.7	$ 854.4

Distribution expenses include $3.0 million of export taxes net of recoveries (2019: $27.8 million). See Note 18(a).

Selected costs by nature:

	Years ended December 31, 2020	2019
Compensation costs	$ 193.6	$ 155.5
Amortization in cost of goods sold	50.9	43.8
Amortization in selling and administration	2.6	1.6

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

28. Government grants

Accounting policy

Effective January 1, 2020, the Company adopted IAS 20 *Accounting for Government Grants* and Disclosure of Government Assistance, and recognizes government grants in net income on the same basis as the Company expenses the related costs that the grants are intended to compensate.

Adoption of this policy was applied retrospectively with no impact on prior years' financial statements.

Supporting information

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

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

28. Government grants (continued)

Supporting information (continued)

In 2020, having met the qualifying tests for decline in revenue, the Company recorded recoveries of $11.6 million to cost of goods sold, and $1.4 million to selling and administration relating to remuneration paid from March 15, 2020 to June 6, 2020. All claims submitted under the CEWS program were approved and fully received in 2020. The Company was ineligible for CEWS program grants for periods after June 6, 2020.

29. Business combination

On February 1, 2019, the Company acquired 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.

Columbia Vista is a lumber manufacturer that produces 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 purchase price was allocated to the identifiable assets and liabilities based on their estimated fair values on the acquisition date as follows:

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 and equipment was determined considering asset replacement value, net realizable value of the assets acquired and other factors.

30. Subsequent events

(a) 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.

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

The completion of each stage of the TFL 44 Transaction is subject to satisfaction of customary closing conditions, financing, and certain third-party consents, including approval by the BC Provincial Government and the Huu-ay-aht First Nations People's Assembly. The first stage of the TFL 44 Transaction involves the acquisition of a further 28% equity interest in TFL 44 LP. The total payable by TFL 44 LP for the first stage of the TFL 44 Transaction is $22.4 million, $2.6 million of which will be financed through vendor take back financing provided by the Company having a maturity date of March 31, 2023. The first stage is anticipated to close in the second quarter, 2021. The second stage of the TFL 44 Transaction, for the acquisition of a further 16% interest in TFL 44 LP for total consideration of $12.8 million, is anticipated to close in the first quarter, 2023.

30. Subsequent events (continued)

(a) Non-controlling interest (continued)

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

The APD Transaction is anticipated to close in the first quarter, 2023.

(b) Dividend

On February 18, 2021, the Company's Board of Directors reinstated a quarterly dividend of $0.01 per common share. The next quarterly dividend will be payable on March 12, 2021 to shareholders of record on February 26, 2021.

Western Forest Products Inc.

DEFINING A HIGHER STANDARD™

Suite 800
1055 West Georgia Street
Royal Centre, PO Box 11122
Vancouver, British Columbia
Canada V6E 3P3
Telephone: 604 648 4500

www.westernforest.com
info@westernforest.com

Trading on the TSX as “WEF”