Western Forest Products Inc.

2023 Third Quarter Report

Management's Discussion & Analysis

The following Management's Discussion and Analysis ("MD&A") reports and comments on the financial condition and results of operations of Western Forest Products Inc. (the "Company", "Western", "us", "we", or "our"), on a consolidated basis, for the three and nine months ended September 30, 2023, to help security holders and other readers understand our Company and the key factors underlying our financial results. This discussion and analysis should be read in conjunction with our unaudited condensed consolidated interim financial statements and the notes thereto for the three and nine months ended September 30, 2023, and our audited annual consolidated financial statements and the notes thereto and Management's Discussion and Analysis for the year ended December 31, 2022, which can be found on SEDAR+ at www.sedarplus.ca.

The Company has prepared the consolidated financial statements for the three and nine months ended September 30, 2023, in accordance with International Financial Reporting Standards ("IFRS"), as issued by the International Accounting Standards Board. Amounts discussed herein are based on our unaudited condensed consolidated interim financial statements and are presented in millions of Canadian dollars unless otherwise noted. Certain comparative prior period figures have been reclassified to conform to the current period's presentation.

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

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

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

This MD&A contains statements that may constitute forward-looking statements under the applicable securities laws. Readers are cautioned against placing undue reliance on forward-looking statements. All statements herein, other than statements of historical fact, may be forward-looking statements and can be identified by the use of words such as "will", "commit", "project", "estimate", "expect", "anticipate", "plan", "target", "forecast", "intend", "believe", "seek", "could", "should", "may", "likely", "continue", "pursue" and similar references to future periods. Forward-looking statements in this MD&A include, but are not limited to, statements relating to our current intent, belief or expectations with respect to: domestic and international market conditions, demands and growth; economic conditions; our growth, marketing, production, wholesale, operational and capital allocation plans, investments and strategies, including but not limited to payment of a dividend or repurchase of shares; fibre availability and regulatory developments; changes to stumpage rates and the expected timing thereof; the impact of COVID-19; the execution of our sales and marketing strategy; the development and completion of integrated resource management plans or forest landscape plan pilots by First Nations; the impact of the Nature Agreement on the Company's operations; the impact of the determination of a new AAC for TFL 19; the Company's pursuit of the TFL 44 AAC determination with government; the potential for viable industrial manufacturing solutions for the APD facility; the timing and outcome of the negotiation processes for the APD facility, the completion of and expected timing of the acquisition by the Nations, and the expected timing and cost of completion of the Company's announced strategic investments. Although such statements reflect management's current reasonable beliefs, expectations and assumptions as to, amongst other things, the future supply and demand of forest products, global and regional economic activity and the consistency of the regulatory framework within which the Company currently operates, there can be no assurance that forward-looking statements are accurate, and actual results and performance may materially vary.

Many factors could cause our actual results or performance to be materially different, including: economic and financial conditions including inflation, international demand for forest products, the Company's ability to export its products, cost and availability of shipping carrier capacity, competition and selling prices, international trade disputes and sanctions, changes in foreign currency exchange rates, labour disputes and disruptions, ability to recruit workers, natural disasters, the impact of climate change, relations with First Nations groups, First Nations' claims and settlements, the availability of fibre and allowable annual cut, the ability to obtain operational permits, development and changes in laws and regulations affecting the forest industry including as related to old growth timber management and the Manufactured Forest Products Regulation, changes in the price of key materials for our products, changes in opportunities, information systems security, future developments relating to COVID-19 and other factors referenced under the "Risks and Uncertainties" section herein. The foregoing list is not exhaustive, as other factors could adversely affect our actual results and performance. Forward-looking statements are based only on information currently available to us and refer only as of the date hereof. Except as required by law, we undertake no obligation to update forward-looking statements. Unless otherwise noted, the information in this discussion and analysis is updated to November 7, 2023.

Summary of Selected Quarterly Results (1)

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

Summary Information		Q3 2023	Q3 2022	Q2 2023	YTD 2023	YTD 2022
Revenue						
Lumber (2)		$ 179.9	$ 267.1	$ 212.4	$ 603.3	$ 932.8
Logs		38.4	72.5	52.8	129.8	176.0
By-products and other		12.8	16.4	10.8	37.8	44.2
Total revenue		231.1	356.0	276.0	770.9	1,153.0
Freight		15.7	25.6	21.0	59.3	82.7
Export tax expense		5.2	8.0	6.2	16.1	34.2
Export tax recovery		(4.3)	(18.0)	-	(4.3)	(18.0)
Stumpage		5.9	36.4	14.3	35.7	90.1
Adjusted EBITDA (3)		(11.6)	17.3	(12.0)	(28.7)	148.9
Adjusted EBITDA margin (3)		(5%)	5%	(4%)	(4%)	13%
Operating income (loss) prior to restructuring and other items		$ (25.8)	$ 4.7	$ (25.1)	$ (69.0)	$ 110.3
Net income (loss)		(17.4)	6.6	(20.7)	(55.8)	83.2
Earnings (loss) per share						
Basic and diluted	$ per share	(0.05)	0.02	(0.07)	(0.17)	0.25
Operating Information (4)						
Lumber shipments (2),(5)	mmfbm	130	179	153	452	562
Cedar	mmfbm	34	28	38	101	116
Japan Specialty	mmfbm	19	23	21	54	83
Industrial (2)	mmfbm	19	19	23	66	54
Commodity	mmfbm	58	109	71	231	309
Lumber production (2)	mmfbm	126	169	148	436	517
Lumber price, average (2)	$/mfbm	$ 1,388	$ 1,495	$ 1,392	$ 1,334	$ 1,661
Wholesale lumber shipments	mmfbm	6	7	4	15	34
Log shipments	000 m^3	324	404	370	939	962
Domestic	000 m^3	222	272	302	722	715
Export	000 m^3	-	-	-	-	-
Pulp	000 m^3	102	132	68	217	247
Net production (6)	000 m^3	678	800	935	2,234	2,451
Saw log purchases	000 m^3	116	302	167	475	920
Log price, average (7)	$/$m^3$	$ 129	$ 172	$ 129	$ 126	$ 168
Illustrative Lumber Average Price Data (8)	**Price Basis**					
Grn WRC #2 Clear & Btr 4x6W RL ($C)	cif dest N Euro	$ 8,550	$10,300	$ 8,550	$ 8,600	$ 9,878
Grn WRC Deck Knotty 2x6 RL S4S	Net fob Mill	$ 1,206	$ 1,720	$ 1,304	$ 1,326	$ 2,033
Grn WRC #2 & Btr AG 6x6 RL	Net fob Mill	$ 3,315	$ 3,315	$ 3,315	$ 3,315	$ 3,280
Coast Gm WRC Std&Btr NH 3/4x4 RL S1S2E	Net fob Mill	$ 1,319	$ 2,189	$ 1,469	$ 1,465	$ 2,334
Grn Hem Baby Squares Merch 4-1/8x4-1/8 13’	c&f dest Japan	$ 960	$ 1,638	$ 1,165	$ 1,116	$ 1,793
Grn Dfir Baby Squares Merch 4-1/8x4-1/8 RL S4S	c&f dest Japan	$ 1,120	$ 1,746	$ 1,235	$ 1,209	$ 1,886
Grn Dfir (Portland) #1&Btr 100% FOHC 6x6 Rough	Net fob Mill	$ 1,898	$ 1,961	$ 1,985	$ 1,955	$ 1,928
Hemlock Lumber 2x4 (40x90) Metric RG Utility	cif dest Shanghai	$ 393	$ 452	$ 425	$ 410	$ 515
Coast KD Hem-Fir #2 & Btr 2x4	Net fob Mill	$ 480	$ 626	$ 405	$ 428	$ 958
Average exchange rate – CAD to USD		0.746	0.766	0.745	0.743	0.780
Average exchange rate – CAD to JPY		107.78	105.93	102.23	102.56	99.43

(1) Included in Appendix A is a table of selected results from the last eight quarters. Figures in the table may not equal, sum or recalculate to figures presented in the table or elsewhere due to rounding. Log data reflects British Columbia (“BC”) business only.
(2) Includes glue-laminated wood products.
(3) Adjusted EBITDA and Adjusted EBITDA margin are non-GAAP financial measures. Refer to the Non-GAAP Financial Measures section of this document for more information on each non-GAAP financial measure.
(4) “mmfbm” = millions of board feet; “mfbm” = thousands of board feet.
(5) Includes wholesale lumber shipments.
(6) Net production is sorted log production, net of residuals and waste.
(7) The average realized log price per cubic metre has been presented on a gross basis, which may include fee-in-lieu and shipping charges incurred on behalf of customers to facilitate sales to export markets.
(8) Sourced from Random Lengths in USD/Mfbm except Hemlock Metric RG Utility that is sourced from the Forest Economic Advisors LLC China Bulletin.

Summary of Third Quarter 2023 Results

We reported Adjusted EBITDA of negative $11.6 million in the third quarter of 2023, which included $4.3 million in export tax recovery, as compared to positive $17.3 million in the same period last year, which included $18.0 million in export tax recovery. Results in the third quarter of 2023 continue to reflect more challenging macroeconomic and lumber market conditions, as compared to the same period last year.

Net loss was $17.4 million in the third quarter of 2023, as compared to net income of $6.6 million in the same period last year. Operating loss prior to restructuring and other items was $25.8 million in the third quarter of 2023, as compared to income of $4.7 million in the same period last year.

Sales

Lumber revenue was $179.9 million in the third quarter of 2023 as compared to $267.1 million in the same period last year. The decrease of 33% was due to lower lumber shipment volumes and lower average lumber prices, partially offset by a stronger sales mix and stronger US Dollar ("USD") to Canadian Dollar ("CAD") average exchange rate. Our average realized lumber price decreased by 7% to $1,388 per thousand board feet in the third quarter of 2023, as compared to $1,495 per thousand board feet in the same period last year.

Specialty lumber shipments represented 55% of total lumber shipment volumes in the third quarter of 2023, as compared to 39% in the same period last year, yielding a stronger sales mix. Industrial lumber shipment volumes remained flat compared to the same period last year with incremental volume from the acquisition of our Calvert engineered wood products division offset by lower volumes in certain other product lines. Cedar lumber shipment volumes increased 21% compared to the same period last year due to improved take-away through the home centre segment. Japan lumber shipment volumes decreased 17% compared to the same period last year due to increased levels of supply from domestic manufacturing, Europe and Russia. Commodity lumber shipment volumes decreased 47% compared to the same period last year due to weaker market demand.

Log revenue was $38.4 million in the third quarter of 2023, as compared to $72.5 million in the same period last year. The decrease of 47% was due to lower log sales volumes and lower domestic log prices.

By-products and other revenue were $12.8 million, as compared to $16.4 million in the same period last year. The decrease of 22% was due to lower chip prices and lower volumes as the result of reduced sawmill production, partially offset by higher revenue from harvesting services provided to third parties.

Operations

Lumber production was 126 million board feet in the third quarter of 2023, as compared to 169 million board feet in the same period last year. During the third quarter of 2023 we curtailed certain sawmill operations to match production to market demand and manage inventory levels. A higher specialty mix of production led to increased secondary processing volumes and costs as compared to the third quarter of 2022.

We harvested 678,000 cubic metres of logs from our BC coastal operations in the third quarter of 2023, as compared to 800,000 cubic metres in the same period last year, due to an extended fire-risk season and reduced heli-logging contractor availability.

Despite lower harvest volumes, Timberlands operating cash costs per cubic metre declined 26% in the third quarter of 2023, compared to the same period last year, primarily as a result of lower stumpage per cubic metre. A reduction in more costly heli-logging harvest and management of road building activity also contributed to the lower unit costs.

BC Coastal sawlog purchases were 116,000 cubic metres in the third quarter of 2023, as compared to 302,000 cubic metres in the same period last year. We managed sawlog purchases to match fibre requirements at our BC manufacturing facilities.

Freight expense was $15.7 million in the third quarter of 2023 as compared to $25.6 million in the same period last year. The decrease of 39% was due to lower lumber and export shipments and lower container, rail and trucking rates. In addition, lack of container availability in the third quarter of 2022 necessitated the use of higher cost breakbulk vessels.

Adjusted EBITDA and operating income included $5.2 million of countervailing duty (“CV”) and anti-dumping duty (“AD”) expense in the third quarter of 2023, as compared to $8.0 million in the same period of 2022. Export tax expense declined due to lower duty rates, lumber prices and US-destined lumber shipment volumes, partially offset by a stronger USD.

During the third quarter of 2023, we recognized a recovery of $4.3 million on the finalization of duty rates from 8.99% to 8.05% for shipments made in 2021. The comparative quarter of 2022 included a recovery of $18.0 million on the finalization of duty rates from 20.23% to 8.59% or shipments made in 2020.

Corporate and Other

Selling and administration expense was $9.6 million in the third quarter of 2023 as compared to $11.1 million in the same period last year, primarily as a result of reduced incentive compensation expense.

Other income was $2.2 million in the third quarter of 2023 as compared to $4.0 million in the same period last year, resulting primarily from lower unrealized foreign exchange gains on export tax receivables.

Finance costs were $0.5 million in the third quarter of 2023 as compared to finance income of $0.7 million in the same period last year. Interest expense on higher average borrowings were partially offset by interest revenue from the export duty receivable.

Income Taxes

Income tax recovery was $6.5 million on a net loss before tax of $23.9 million in the third quarter of 2023, as compared to an expense of $3.0 million on income before tax of $9.6 million in the same period last year. The effective tax rate was 27% as compared to 31% in the same period last year.

Net Income (Loss)

Net loss was $17.4 million in the third quarter of 2023, as compared to net income of $6.6 million for the same period last year. More challenging macroeconomic conditions resulted in lower lumber demand and prices and impacted results quarter over quarter.

Summary of Year to Date 2023 Results

We reported Adjusted EBITDA of negative $28.7 million for the first nine months of 2023, as compared to $148.9 million for the same period last year. Results in the nine months of 2023 continue to reflect more challenging macroeconomic and lumber market conditions, as compared to the same period last year.

Net loss was $55.8 million for the first nine months of 2023, as compared to net income of $83.2 million for the same period last year. Operating loss prior to restructuring and other items was $69.0 million in the first nine months of 2023, as compared to income of $110.3 million in the same period last year.

Sales

Lumber revenue was $603.3 million in the first nine months of 2023 as compared to $932.8 million in the same period last year. The decrease of 35% was due to lower lumber shipment volumes and average lumber prices, partially offset by a slightly stronger sales mix and stronger USD to CAD average exchange rate. Our average realized lumber price was $1,334 per thousand board feet in the first nine months of 2023, as compared to $1,661 per thousand board feet in the same period last year, a decrease of 20%.

Speciality lumber shipments represented 49% of total lumber shipment volumes in the first nine months of 2023, as compared to 45% in the same period last year, yielding a slightly stronger sales mix. Industrial lumber shipment volumes increased 22% compared to the same period last year with incremental volume from the acquisition of our Calvert engineered wood products division and growth primarily in Douglas fir timbers. Cedar lumber shipments decreased 13% compared to the same period last year as buyers managed inventory levels to market conditions. Japan lumber shipment volumes decreased 35% compared to the same period last year due to increased levels of supply from domestic manufacturing, Europe and Russia. Commodity lumber shipments decreased 25% compared to the same period last year due to weaker market demand.

Log revenue was $129.8 million in the first nine months of 2023, as compared to $176.0 million in the same period last year. The decrease of 26% was due to lower average domestic log prices, partially offset by higher log sales volume, as we balanced log inventories to lumber market conditions and fibre requirements of our manufacturing facilities.

By-product and other revenue were $37.8 million in the first nine months of 2023 as compared to $44.2 million in the same period last year. The decrease of 14% was due to lower chip prices and lower volumes as the result of reduced sawmill production, partially offset by higher revenue from harvesting services provided to third parties.

Operations

Lumber production was 436 million board feet in the first nine months of 2023, as compared to 517 million board feet in the same period last year. During the first nine months of 2023 we took operating curtailments at certain sawmills to match production to market demand and manage inventory.

We harvested 2,234,000 cubic metres of logs from our BC coastal operations in the first nine months of 2023, as compared to 2,451,000 cubic metres in the same period last year, due to an extended fire-risk season, reduced heli-logging contractor availability in the third quarter of 2023 and matching harvest volumes to market conditions.

Despite lower harvest volumes, Timberlands operating cash costs per cubic metre declined 22% in the first nine months of 2023, compared to the same period last year, primarily as a result of lower stumpage per cubic metre and management of road building activity.

BC Coastal sawlog purchases were 475,000 cubic metres in the first nine months of 2023, as compared to 920,000 cubic metres in the same period last year. We managed sawlog purchases to match fibre requirements at our BC manufacturing facilities.

Freight expense was $59.3 million in the first nine months of 2023 as compared to $82.7 million in the same period last year. The decrease of 28% was due to lower lumber and export shipments and lower container, rail and trucking rates. In addition, lack of container availability in the first nine months of 2022 necessitated the use of higher cost breakbulk vessels.

Adjusted EBITDA and operating income included $16.1 million of CV and AD expense in the first nine months of 2023, as compared to $34.2 million in the same period of 2022. In the first nine months of 2023, we recognized a recovery of $4.3 million on the finalization of duty rates from 8.99% to 8.05% for shipments made in 2021. The comparative period of 2022 included a recovery of $18.0 million on the finalization of duty rates from 20.23% to 8.59% for shipments made in 2020.

Export tax expense declined due to lower average duty rates, lumber prices and US-destined lumber shipment volumes.

Corporate and Other

Selling and administration expense was $32.0 million for the first nine months of 2023 as compared to $34.0 million in the same period last year, primarily as a result of reduced incentive compensation expense.

Restructuring costs were $6.6 million in the first nine months of 2023 as compared to $0.6 million in the same period last year. The increase was primarily due to retirement and other benefits related to our Alberni Pacific Division ("APD") facility and rightsizing of various operational functions within our business.

Other income was $1.3 million in the first nine months of 2023 as compared to income of $4.1 million in the same period last year, resulting primarily from lower unrealized foreign exchange gains on export tax receivables partially offset by gains on the sale of equipment and other assets.

Finance costs were $1.2 million in the first nine months of 2023 as compared to a negligible amount in the same period last year. Interest expense on higher average borrowings were partly offset by revenue from the export duty receivable.

Income Taxes

Income tax recovery was $19.7 million on a net loss before tax of $75.5 million in the first nine months of 2023, as compared to an expense of $30.6 million on income before tax of $113.8 million in the same period last year. The effective tax rate was 26% as compared to 27% in the same period last year.

Net Income (Loss)

Net loss was $55.8 million in the first nine months of 2023 as compared to net income of $83.2 million for the same period of last year. More challenging macroeconomic conditions during the first nine months of 2023 resulted in lower lumber demand and prices and impacted results year over year.

Alberni Pacific Division

The Company previously announced we would not restart our APD facility in its current configuration and had established a multi-party working group to explore viable industrial manufacturing solutions for the site over a 90-day period. On April 27, 2023, we announced we had commenced negotiations and due diligence processes related to the proposals we received, which are ongoing. Operations at the APD facility have been curtailed since fall 2022 and will remain curtailed through the negotiations.

Indigenous Relationships

We respect the treaty and Aboriginal rights of Indigenous groups, and we are committed to open dialogue and meaningful actions in support of reconciliation. We are actively investing time and resources in capacity building and fostering positive working relationships with Indigenous groups with traditional territories within which Western operates. For details of our progress in 2022, please see “Indigenous Relationships” in our Management’s Discussion and Analysis for the year ended December 31, 2022. Work continues on several Nation-led, integrated resource management planning initiatives across five of the Tree Farm Licence (“TFL”) areas where Western operates.

TFL 39 Block 2 Transaction

On October 23, 2023, Western and four Vancouver Island First Nations (Tlowitsis, We Wai Kai, Wei Wai Kum, and K’ómoks) (collectively, “Nations”) announced an agreement for the Nations to acquire a 34% interest from Western in a newly formed Limited Partnership (“Partnership”) for $35.9 million. The Partnership will consist of certain assts and liabilities of Western’s Mid Island Forest Operation, including Block 2 of TFL 39. The operations of the new Partnership will cover approximately 157,000 hectares of forest land in the traditional territories of the Nations near the communities of Campbell River and Sayward on eastern Vancouver Island. The Partnership will manage an allowable annual cut (“AAC”) of 904,540 cubic metres of timber, and includes a long-term fibre agreement to support Western’s BC coastal manufacturing operations. The formation of the Partnership and acquisition by the Nations is subject to various closing conditions, including subdivision and tenure transfer approvals from the BC Ministry of Forests. Western and the Nations are working towards closing the acquisition in the first quarter of 2024.

Regulatory Environment

Since 2020, the Province of BC (“the Province”) has introduced various policy initiatives and regulatory changes that impact the BC forest sector, including: fibre recovery, lumber remanufacturing, old growth forest management, forest stewardship and the exportation of logs. For additional details on these policy initiatives, regulatory changes and risks, please see “Regulatory Environment” and “Risks and Uncertainties” in our Management’s Discussion and Analysis for the year ended December 31, 2022.

For additional details on policy requirements and regulatory aspects in relation to First Nations see “Land Claims by Indigenous Groups” and “Regulatory Risks” under the heading “Risks and Uncertainties” in our Management’s Discussion and Analysis for the year ended December 31, 2022.

For additional details on old growth logging deferrals and First Nations governments approach to such deferrals, please see the “Old Growth Logging Deferrals” heading in our Management’s Discussion and Analysis for the year ended December 31, 2022.

Tripartite Framework Agreement on Nature Conservation (“Nature Agreement”)

On November 3, 2023, the Government of Canada, the Province and the First Nations Leadership Council announced the signing of the Nature Agreement, extending through March 2030, and intended to further conserve and protect land and water, species and biodiversity in BC. The Nature Agreement includes up to $1 billion in government funding in support of the Government of Canada’s goal to protect 30% of Canada’s terrestrial and aquatic ecosystems by 2030. The Company is unable to assess the potential impact of the Nature Agreement on the Company’s business at this time.

TFL 44

In June 2023, the Province set a new AAC for TFL 44, reducing the allowable annual log harvest from 793,600 cubic metres to 642,800 cubic metres. The new AAC was effective immediately and reflects harvest reductions associated with forest resources and socio-economic objectives of the Province, including the reallocation of previously unharvested volume to new forest licences.

The TFL 44 licence is held by the Tsawak-qin Forestry Limited Partnership, a partnership between Western and Huumiis Ventures Limited Partnership, a limited partnership beneficially owned by the Huu-ay-aht First Nations. The Company strongly opposes the AAC determination and the allocation of unharvested volume to new forest licences in light of their serious concerns that the allocation significantly affected the AAC determination and are continuing to pursue this matter with the Province. Given the foregoing, the Company is unable to assess the potential impact of this AAC determination on the Company's business at this time.

TFL 19

We expect the Provincial Chief Forester to determine a new AAC for TFL 19 before the end of 2023. While we cannot predict the outcome of the determination, the Management Plan that we submitted in 2020, recommended an 18% lower AAC (approximately 130,000 cubic metres), consistent with the timber supply forecasts from previous Management Plans.

Financial Position and Liquidity[1]

(millions of Canadian dollars except where otherwise noted)

Selected Cash Flow Items	Q3 2023	Q3 2022	Q2 2023	YTD 2023	YTD 2022
Operating activities					
Net income (loss)	$ (17.4)	$ 6.6	$ (20.7)	$ (55.8)	$ 83.2
Amortization	14.1	12.7	13.2	40.4	38.2
Gain on disposal of property, equipment and other assets	(0.2)	-	(0.2)	(0.3)	(1.3)
Income tax expense (recovery)	(6.5)	3.0	(7.3)	(19.7)	30.6
Income tax receipts (payments)	(0.1)	(3.8)	15.2	15.0	(91.8)
Share-based compensation	(1.1)	0.2	0.1	(0.6)	(1.2)
Export tax receivable	(4.3)	(18.0)	-	(4.3)	(18.0)
Other	1.1	(7.1)	(1.8)	(0.6)	(7.0)
	(14.4)	(6.4)	(1.5)	(25.9)	32.7
Change in non-cash working capital	0.3	2.2	8.5	(7.1)	(50.7)
Cash provided by (used in) operating activities	(14.1)	(4.2)	7.0	(33.0)	(18.0)
Investing activities					
Acquisition of Calvert net assets	-	(16.1)	-	-	(16.1)
Additions to property, plant and equipment	(5.1)	(7.3)	(9.2)	(19.2)	(17.2)
Additions to capital logging roads	(3.0)	(6.0)	(2.4)	(8.0)	(9.0)
Proceeds on disposal of property, equipment and other	0.1	0.5	1.9	2.2	2.4
Insurance proceeds	4.7	-	-	4.7	-
Loans and advances	0.1	-	(0.2)	(1.2)	-
Deposits	-	-	-	-	(2.0)
Cash used in investing activities	(3.2)	(28.9)	(9.9)	(21.5)	(41.9)
Financing activities					
Drawings on credit facility	25.2	-	11.0	62.2	-
Bank indebtedness	(0.5)	-	-	0.5	-
Dividends	(4.0)	(4.1)	(3.9)	(11.9)	(11.4)
Share repurchases	-	(10.0)	-	-	(17.3)
Lease payments	(2.7)	(1.6)	(2.5)	(7.1)	(5.4)
Other	(0.9)	(0.1)	(0.8)	(2.0)	(0.6)
Cash provided by (used in) financing activities	17.1	(15.8)	3.8	41.7	(34.7)
Increase (decrease) in cash	$ (0.2)	$ (48.9)	$ 0.9	$ (12.8)	$ (94.6)

Summary of Financial Position			
Cash and cash equivalents	$ 3.0	$ 35.4	$ 3.2
Current assets	314.6	395.4	336.5
Current liabilities	103.3	154.6	127.7
Bank indebtedness	0.5	-	1.0
Long term debt	62.0	-	36.8
Net debt (cash) [2]	59.5	(35.4)	34.6
Equity, excluding non-controlling interest	580.3	676.0	599.5
Total liquidity [3][6]	170.2	269.1	195.5
Financial ratios			
Current assets to current liabilities [4]	3.05	2.56	2.64
Net debt to capitalization [5][6]	9%	0%	5%

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

Cash used in operating activities was $14.1 million in the third quarter of 2023, as compared to $4.2 million in the same period last year due to more challenging macroeconomic and lumber market conditions.

Cash used in investing activities was $3.2 million in the third quarter of 2023 as compared to $28.9 million in the same period last year. The third quarter of 2023 included receipt of $4.7 million in life insurance proceeds, arising from a predecessor company arrangement. The comparative period of 2022 included use of $16.1 million to acquire the assets of Calvert Company, Inc.

Cash provided by financing activities was $17.1 million in the third quarter of 2023 as compared to cash used of $15.8 million in the same period last year. The Company returned $4.0 million ($0.0125 per share) to shareholders through dividends in the third quarter of 2023 as compared to $4.1 million ($0.0125 per share) in the same period last year. The Company drew $25.2 million on its credit facility during the third quarter of 2023, which was not utilized in 2022.

Liquidity and Capital Resources

Total liquidity was $170.2 million at September 30, 2023, as compared to $249.8 million at December 31, 2022 and $269.1 million at September 30, 2022. Liquidity is comprised of cash and cash equivalents of $3.0 million, and unused availability under the credit facility of $167.7 million.

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

Based on our current forecasts, we expect sufficient liquidity will be available to meet any commitments as well as our other obligations through 2023. The Company was in compliance with its financial covenants as at September 30, 2023.

Dividend and Capital Allocation

We remain committed to a balanced approach to capital allocation. We will continue to evaluate opportunities to invest strategic and discretionary capital in jurisdictions that create the opportunity to grow long-term shareholder value.

Quarterly Dividend

In response to the weaker lumber market conditions and corresponding financial results, Western is suspending its quarterly dividend until further notice, effective November 7, 2023. The Board of Directors ("Board") will continue to review the Company's dividend on a quarterly basis. Any decision to declare and pay dividends in the future will be made at the discretion of our Board, after considering our operating results, financial condition, cash requirements, financing agreement restrictions and other factors our Board may deem relevant.

Dividends of $4.0 million and $11.9 million were paid in the three and nine months ending September 30, 2023, respectively, as compared to $4.1 million and $11.4 million in the same period last year.

Normal Course Issuer Bid ("NCIB")

On August 3, 2023, the Company renewed its NCIB permitting the purchase and cancellation of up to 15,837,277 common shares, representing 5% of the Company's common shares outstanding as of August 2, 2023. The renewed NCIB commenced on August 11, 2023 and will end no later than August 10, 2024. The Company also entered into an automatic share purchase plan with a designated broker to facilitate purchases of its common shares under the renewed NCIB at times when the Company would ordinarily not be permitted to purchase its common shares due to regulatory restrictions or self-imposed blackout periods.

During the first nine months ended September 30, 2023, no common shares were repurchased under our current NCIB.

BC Operations Strategic Investments Update

Western continues to make progress on our previously announced strategic investments. All projects remain on budget.

- The $12.3 million continuous kiln at the Saltair sawmill is in the pre-construction phase with $6.6 million spending completed through September 30, 2023. Delays in the receipt of certain final permits have slowed completion of the project, which is now anticipated to commence commissioning in first quarter of 2024.
- The optimization of the centralized planer and installation of a machine stress rate ("MSR") grader at the Duke Point facility totals $7.9 million. The related capital expenditures through September 30, 2023 total $7.6 million, including installation of the MSR grader which is complete.
- Other strategic investments total $8.3 million with expenditures to date totalling $7.3 million, including many completed projects.

Strategy and Outlook

Western's long-term business objective is to create and grow shareholder value by building a sustainable, margin-focused specialty products business of scale to compete successfully in global markets. For more detail on our strategic initiatives and actions, refer to "*Strategy and Outlook*" in our Management's Discussion and Analysis for the year ended December 31, 2022.

Market Outlook

Near-term we expect lumber markets to remain volatile as we head into the typically slower fall and winter seasons. Consumers continue to adjust to higher interest rates and macroeconomic conditions which is driving a rebalancing of lumber supply and demand.

Demand and prices for Cedar timber and premium appearance products are expected to remain stable, while Cedar decking, trim and fencing products are expected to remain weaker. In Japan, we see near-term opportunities to increase volumes as domestic production has been impacted by a fire at a large Japanese sawmill. We anticipate prices to modestly improve in the near-term. Demand for our Industrial lumber products will be product line specific but are expected to remain stable over the near-term. North American demand and prices for our commodity products are expected to remain volatile, while lumber demand and prices in China are expected to remain weak.

We expect sawlog markets to follow conditions in the lumber markets, while residual chip pricing is expected to modestly improve in the fourth quarter of 2023 due to stronger northern bleached softwood kraft prices to China.

We remain excited about the long-term growth opportunity for wood products and the positive impacts they have in a low carbon world.

Softwood Lumber Dispute

The US application of duties continues a long-standing pattern of US protectionist action against Canadian lumber producers. For a comprehensive history of the softwood lumber trade dispute and related North American Free Trade Agreement ("NAFTA") challenge proceedings, please see "*Risks and Uncertainties – Softwood Lumber Dispute"* in our Management's Discussion and Analysis for the year ended December 31, 2022.

In the first nine months of 2023, Western expensed $16.1 million of export duties at a combined duty rate of 8.59% on its lumber shipments into the US until August 1, 2023, and at 8.05% thereafter as compared to an expense of $34.2 million of export duties at a combined rate 17.91% until August 8, 2022, and at 8.59% thereafter for the same period last year. The effect of lower duty rates and a 16% decline in the Company's US-destined lumber shipment volumes were slightly offset by the 5% appreciation of the average US to Canadian dollar exchange rate over these periods.

On March 14, 2023, the Department of Commerce ("DoC") initiated its fifth administrative review ("AR") of CV and AD rates for shipments in 2022, with a completion deadline of January 31, 2024.

On July 27, 2023, the DoC released its final determination for CV and AD rates from its fourth AR for shipments in 2021, amended on September 7, 2023 for ministerial errors, and which resulted in an additional export tax recovery of USD$3.5 million (CAD$4.3 million) and long-term interest-bearing duty receivable recognized in the third quarter of 2023. Effective August 1, 2023, cash deposits will continue at the revised combined duty rate of 8.05% until publication of final rates of the fifth AR in the federal register, after which time the new rates will apply.

As at September 30, 2023, Western had $220.9 million (USD $162.7 million) of cash on deposit with the US Department of Treasury in respect of these softwood lumber duties, of which $63.2 million (USD $46.6 million) is recognized in the Company’s balance sheet arising from final rate determinations for Canadian shipments made to the US in 2017 through 2021.

Including wholesale lumber shipments, our sales from Canadian operations to the US market represented approximately 26% of our total lumber shipments in the first nine months of 2023.

On October 5, 2023, the NAFTA Chapter 19 panel determined that the DoC erred in how it calculated important aspects of the anti-dumping duties applied to Canadian softwood lumber exports and directed the DoC to revisit key elements of its dumping determination by January 12, 2024.

The final amount and effective date of CV and AD duties that may be assessed on Canadian softwood lumber exports to the US cannot be determined at this time and will depend on decisions yet to be made by any reviewing courts or panels to which the DoC and ITC determinations may be appealed.

Non-GAAP Financial Measures

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

(millions of Canadian dollars except where otherwise noted)

Adjusted EBITDA	**Q3 2023**	**Q3 2022**	**Q2 2023**	**YTD 2023**	**YTD 2022**
Net income (loss)	$ (17.4)	$ 6.6	$ (20.7)	$ (55.8)	$ 83.2
Add:					
Amortization	14.1	12.7	13.2	40.4	38.2
Changes in fair value of biological assets	-	(0.2)	(0.1)	(0.2)	0.3
Operating restructuring items	(0.2)	(0.2)	1.6	6.6	0.6
Other expense (income)	(2.2)	(4.0)	0.8	(1.3)	(4.1)
Finance costs	0.5	(0.7)	0.5	1.2	-
Income tax expense (recovery)	(6.5)	3.0	(7.3)	(19.7)	30.6
Adjusted EBITDA	$ (11.6)	$ 17.3	$ (12.0)	$ (28.7)	$ 148.9

Adjusted EBITDA margin					
Total revenue	$ 231.1	$ 356.0	$ 276.0	$ 770.9	$1,153.0
Adjusted EBITDA	(11.6)	17.3	(12.0)	(28.7)	148.9
Adjusted EBITDA margin	(5%)	5%	(4%)	(4%)	13%

Net debt to capitalization	**Sept. 30 2023**	**Sept. 30 2022**	**Jun. 30 2023**
Net debt (cash)			
Total debt	$ 62.0	$ -	$ 36.8
Bank indebtedness	0.5	-	1.0
Cash and cash equivalents	(3.0)	(35.4)	(3.2)
	$ 59.5	$ (35.4)	$ 34.6
Capitalization			
Net debt (cash)	$ 59.5	$ (35.4)	$ 34.6
Total equity attributable to equity shareholders of the Company	580.3	676.0	599.5
	$ 639.8	$ 640.6	$ 634.1
Net debt to capitalization	9%	0%	5%

Total liquidity	**Sept. 30 2023**	**Sept. 30 2022**	**Jun. 30 2023**
Cash and cash equivalents	$ 3.0	$ 35.4	$ 3.2
Available credit facility	250.0	250.0	250.0
Bank indebtedness	(0.5)	-	(1.0)
Credit facility drawings	(62.2)	-	(37.0)
Outstanding letters of credit	(20.1)	(16.3)	(19.7)
	$ 170.2	$ 269.1	$ 195.5

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

Accounting Policies and Standards

Several new standards, and amendments to existing standards and interpretations, were not yet effective as at September 30, 2023, and have not been applied in preparing the Company's unaudited condensed consolidated interim financial statements. None of the standards are currently considered by the Company to be significant or likely to have a material impact on future financial statements.

Critical Accounting Estimates

For a review of significant management judgements affecting financial results and critical accounting estimates, please see our 2022 Annual Report, which can be found on SEDAR+ at www.sedarplus.ca. There were no changes to critical accounting estimates during the nine months ended September 30, 2023.

Financial Instruments and Other Instruments

We use various financial instruments to reduce the impact of movement in foreign exchange rates on our net income. Please see our Management Discussion and Analysis for the year ended December 31, 2022 for a further discussion on our use of financial instruments. There were no changes to our use of financial instruments during the nine months ended September 30, 2023.

Off-Balance Sheet Arrangements

The Company has off-balance sheet arrangements which include letters of credit and surety performance and payment bonds, primarily for timber purchases and CV and AD duty deposits. At September 30, 2023, such instruments aggregated $14.2 million (December 31, 2022 - $20.1 million). Off-balance sheet arrangements have not had, and are not reasonably likely to have, any material impact on the Company's current or future financial condition, results of operations or cash flows.

Related Party Transactions

Other than transactions in the normal course of business with the Board of Directors and key management personnel, the Company had no transactions between related parties in the three and nine months ended September 30, 2023.

Risks and Uncertainties

The business of the Company is subject to several risks and uncertainties, including those described in the 2022 Annual Report which can be found on SEDAR+ at www.sedarplus.ca. Any of the risks and uncertainties described in the above-noted document could have a material adverse effect on our operations and financial condition and cash flows and, accordingly, should be carefully considered in evaluating Western's business. Except as set forth in this MD&A and the notes to our condensed consolidated interim financial statements, there were no additional risks and uncertainties identified during the nine months ended September 30, 2023.

Internal Controls over Financial Reporting

There have been no changes in the Company's internal controls over financial reporting ("ICFR") during the three months ended September 30, 2023, that have materially affected, or are reasonably likely to materially affect, its ICFR.

Outstanding Share Data

As of November 7, 2023, there were 316,745,557 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 nine months ended September 30, 2023, no options were granted, 400,000 previously granted options were exercised, 1,000,000 options expired and 2,246,778 options were forfeited. As of November 7, 2023, 11,486,679 stock options were outstanding under our incentive stock option plan.

Additional Information

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

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)

		2023			2022				2021
		Q3	Q2	Q1	Q4	Q3	Q2	Q1	Q4
Average exchange rate – USD to CAD		1.341	1.343	1.358	1.358	1.305	1.276	1.267	1.260
Average exchange rate – CAD to USD		0.746	0.745	0.740	0.737	0.766	0.783	0.789	0.793
Financial performance									
Revenue									
Lumber		$ 179.9	$ 212.4	$ 211.0	$ 219.7	$ 267.1	$ 351.8	$ 313.9	$ 268.0
Logs		38.4	52.8	38.6	54.9	72.5	70.8	32.7	48.9
By-products and other		12.8	10.8	14.2	16.4	16.4	14.8	13.0	11.0
Total revenue		$ 231.1	$ 276.0	$ 263.8	$ 291.0	$ 356.0	$ 437.4	$ 359.6	$ 327.9
Adjusted EBITDA		$ (11.6)	$ (12.0)	$ (5.0)	$ (11.9)	$ 17.3	$ 66.2	$ 65.4	$ 52.5
Adjusted EBITDA margin		(5%)	(4%)	(2%)	(4%)	5%	15%	18%	16%
Net income (loss)		$ (17.4)	$ (20.7)	$ (17.7)	$ (21.4)	$ 6.6	$ 38.6	$ 38.0	$ 28.5
Earnings (loss) per share									
Basic		$ (0.05)	$ (0.07)	$ (0.05)	$ (0.07)	$ 0.02	$ 0.12	$ 0.12	$ 0.08
Diluted		$ (0.05)	$ (0.07)	$ (0.05)	$ (0.07)	$ 0.02	$ 0.12	$ 0.11	$ 0.08
Operating statistics									
Lumber (1)(2)									
Production	Mmfbm	126	148	162	139	169	173	175	179
Shipments	Mmfbm	130	153	170	155	179	197	186	164
Price	$/mfbm	$ 1,388	$ 1,392	$ 1,241	$ 1,420	$ 1,495	$ 1,786	$ 1,688	$ 1,634
Logs (3)									
Net production	000 m^3	678	935	621	658	800	904	748	700
Saw log purchases	000 m^3	116	167	192	173	302	328	290	211
Log availability	000 m^3	794	1,102	813	831	1,102	1,232	1,038	911
Shipments	000 m^3	324	370	245	367	404	391	167	378
Price (4)	$/$m^3$	$ 129	$ 129	$ 135	$ 142	$ 172	$ 166	$ 163	$ 117
Share Repurchases and Dividends									
Shares repurchased	# millions	-	-	-	2.2	6.5	-	3.4	17.4
Shares repurchased	$ millions	$ -	$ -	$ -	$ 3.0	$ 10.0	$ -	$ 7.3	$ 34.5
Dividends paid	$ millions	$ 4.0	$ 3.9	$ 4.0	$ 3.9	$ 4.1	$ 4.0	$ 3.3	$ 3.3
Non-GAAP Financial Measures									
Net income (loss)		$ (17.4)	$ (20.7)	$ (17.7)	$ (21.4)	$ 6.6	$ 38.6	$ 38.0	$ 28.5
Add:									
Amortization		14.1	13.2	13.1	12.0	12.7	12.8	12.7	12.7
Changes in fair value of biological assets		-	(0.1)	-	(0.2)	(0.2)	-	0.5	0.2
Operating restructuring items		(0.2)	1.6	5.2	3.9	(0.2)	0.2	0.6	0.8
Other expense (income)		(2.2)	0.8	0.1	2.0	(4.0)	(0.2)	0.1	(0.3)
Finance costs (income)		0.5	0.5	0.2	(0.1)	(0.7)	0.3	0.4	0.2
Income tax expense (recovery)		(6.5)	(7.3)	(5.9)	(8.0)	3.0	14.5	13.1	10.2
Adjusted EBITDA		$ (11.6)	$ (12.0)	$ (5.0)	$ (11.9)	$ 17.3	$ 66.2	$ 65.4	$ 52.5
Divided by total revenue		231.1	276.0	263.8	291.0	356.0	437.4	359.6	327.9
Adjusted EBITDA margin		(5%)	(4%)	(2%)	(4%)	5%	15%	18%	16%

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

(1) "mmfbm" = millions of board feet; "mfbm" = thousands of board feet.
(2) Includes glue-laminated wood products.
(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 of customers to facilitate sales to export markets.

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

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

Western Forest Products Inc.

Unaudited Condensed Consolidated Interim Financial Statements

For the three and nine months ended September 30, 2023 and 2022

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

	September 30, 2023	December 31, 2022
Assets		
Current assets:		
Cash and cash equivalents	$ 3.0	$ 15.8
Trade and other receivables	51.9	60.5
Inventory (Note 5)	207.7	224.8
Prepaid expenses and other assets	23.1	21.3
Assets held for sale (Note 6)	11.1	-
Income taxes receivable	17.8	17.4
	314.6	339.8
Non-current assets:		
Property, plant and equipment (Note 7)	351.2	364.7
Timber licenses	93.3	96.3
Biological assets (Note 8)	49.2	49.1
Other assets (Note 9)	77.9	75.7
Goodwill	7.1	7.0
Deferred income tax assets	0.2	0.2
	$ 893.5	$ 932.8
Liabilities and Equity		
Current liabilities:		
Bank indebtedness	$ 0.5	$ -
Accounts payable and accrued liabilities	84.6	108.5
Liabilities directly associated with assets held for sale (Note 6)	0.3	-
Income taxes payable	0.1	0.2
Lease liabilities	6.3	6.8
Reforestation obligation (Note 11)	9.5	8.3
Deferred revenue (Notes 16, 21(c))	2.0	2.0
	103.3	125.8
Non-current liabilities:		
Long-term debt (Note 10)	62.0	-
Lease liabilities	15.2	16.4
Reforestation obligation (Note 11)	12.7	13.8
Other liabilities (Note 13)	12.9	15.4
Deferred revenue (Notes 16, 21(c))	43.0	44.5
Deferred income tax liabilities	60.7	65.2
	309.8	281.1
Equity:		
Share capital (Note 14)	405.4	405.4
Contributed surplus	8.7	9.1
Translation reserve	3.8	3.6
Retained earnings	162.4	229.1
Total equity attributable to equity shareholders of the Company	580.3	647.2
Non-controlling interest	3.4	4.5
	583.7	651.7
	$ 893.5	$ 932.8

Commitments and contingencies (Note 21)
Subsequent events (Note 23)

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

Approved on behalf of the Board:

"Daniel Nocente"
Chair

"Steven Hofer"
President & Chief Executive Officer

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

	Three months ended September 30,		Nine months ended September 30,	
	2023	2022	2023	2022
Revenue (Note 16)	$ 231.1	$ 356.0	$ 770.9	$ 1,153.0
Costs and expenses:				
Cost of goods sold	230.7	324.6	736.8	909.8
Freight	15.7	25.6	59.3	82.7
Export tax (recovery) (Note 21(a))	0.9	(10.0)	11.8	16.2
Selling and administration	9.6	11.1	32.0	34.0
	256.9	351.3	839.9	1,042.7
Operating income (loss) prior to restructuring and other items	(25.8)	4.7	(69.0)	110.3
Operating restructuring items (Note 17)	0.2	0.2	(6.6)	(0.6)
Other income (Note 18)	2.2	4.0	1.3	4.1
Operating income (loss)	(23.4)	8.9	(74.3)	113.8
Finance income (costs)	(0.5)	0.7	(1.2)	-
Income (loss) before income taxes	(23.9)	9.6	(75.5)	113.8
Income tax expense (recovery) (Note 19)				
Current	(7.2)	(3.4)	(15.4)	26.9
Deferred	0.7	6.4	(4.3)	3.7
	(6.5)	3.0	(19.7)	30.6
Net income (loss)	(17.4)	6.6	(55.8)	83.2
Net income (loss) attributable to equity shareholders of the Company	(16.7)	6.8	(54.7)	82.7
Net income (loss) attributable to non-controlling interest	(0.7)	(0.2)	(1.1)	0.5
	(17.4)	6.6	(55.8)	83.2
Other comprehensive income (loss)				
Items that will not be reclassified to profit or loss:				
Employee future benefits actuarial gain (loss)	(0.9)	(0.8)	(0.7)	2.8
Income tax recovery (expense) (Note 19)	0.3	0.3	0.2	(0.7)
Total items that will not be reclassified to profit or loss	(0.6)	(0.5)	(0.5)	2.1
Items that may be reclassified subsequently to profit or loss:				
Foreign currency translation differences for foreign operations	2.0	6.2	0.2	7.6
Total comprehensive income (loss)	$ (16.0)	$ 12.3	$ (56.1)	$ 92.9
Earnings (loss) per share (in dollars) (Note 20)				
Basic and diluted	$ (0.05)	$ 0.02	$ (0.17)	$ 0.25

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

	Share Capital	Contributed Surplus	Translation Reserve	Retained Earnings	Non-controlling Interest	Total Equity
Balance at December 31, 2021	$ 420.8	$ 9.0	$ (2.2)	$ 184.5	$ 5.1	$ 617.2
Net income	-	-	-	82.7	0.5	83.2
Other comprehensive income (loss):						
Employee future benefits actuarial gain	-	-	-	2.8	-	2.8
Income tax expense on actuarial gain (Note 19)	-	-	-	(0.7)	-	(0.7)
Foreign currency translation differences for foreign operations	-	-	7.6	-	-	7.6
Total comprehensive income	-	-	7.6	84.8	0.5	92.9
Stock options recognized in equity (Note 15(a))	-	0.2	-	-	-	0.2
Exercise of stock options (Notes 14, 15(a))	0.2	(0.1)	-	(0.1)	-	-
Repurchase of shares (Note 14)	(12.7)	-	-	(4.6)	-	(17.3)
Dividends	-	-	-	(11.4)	-	(11.4)
Distribution to a non-controlling interest	-	-	-	-	(0.7)	(0.7)
Total transactions with owners, recorded directly in equity	(12.5)	0.1	-	(16.1)	(0.7)	(29.2)
Balance at September 30, 2022	$ 408.3	$ 9.1	$ 5.4	$ 253.2	$ 4.9	$ 680.9
Balance at December 31, 2022	$ 405.4	$ 9.1	$ 3.6	$ 229.1	$ 4.5	$ 651.7
Net loss	-	-	-	(54.7)	(1.1)	(55.8)
Other comprehensive income (loss):						
Employee future benefits actuarial loss	-	-	-	(0.7)	-	(0.7)
Income tax recovery on actuarial loss (Note 19)	-	-	-	0.2	-	0.2
Foreign currency translation differences for foreign operations	-	-	0.2	-	-	0.2
Total comprehensive loss	-	-	0.2	(55.2)	(1.1)	(56.1)
Stock options recognized in equity (Note 15(a))	-	-	-	-	-	-
Exercise of stock options (Notes 14, 15(a))	-	(0.4)	-	0.4	-	-
Dividends	-	-	-	(11.9)	-	(11.9)
Total transactions with owners, recorded directly in equity	-	(0.4)	-	(11.5)	-	(11.9)
Balance at September 30, 2023	$ 405.4	$ 8.7	$ 3.8	$ 162.4	$ 3.4	$ 583.7

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

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

	Three months ended September 30, 2023	Three months ended September 30, 2022	Nine months ended September 30, 2023	Nine months ended September 30, 2022
Cash provided by (used in):				
Operating activities:				
Net income (loss)	$ (17.4)	$ 6.6	$ (55.8)	$ 83.2
Items not involving cash:				
Amortization of property, plant and equipment (Note 7)	13.1	11.7	37.4	35.2
Amortization of timber licenses	1.0	1.0	3.0	3.0
Gain on disposal of property, plant, and equipment (Note 7)	(0.2)	-	(0.3)	(1.3)
Amortization of deferred revenue (Note 16)	(0.5)	(0.5)	(1.5)	(1.5)
Finance costs (income)	0.5	(0.7)	1.2	-
Income tax (recovery) expense (Note 19)	(6.5)	3.0	(19.7)	30.6
Change in fair value of biological assets (Note 8)	-	(0.2)	(0.2)	0.3
Change in reforestation obligation (Note 11)	0.2	(1.7)	(0.3)	(1.0)
Share-based compensation, including mark-to-market adjustment (Note 15)	(1.1)	0.2	(0.6)	(1.2)
Change in employee future benefits obligation (Note 12)	(0.2)	(0.4)	(0.7)	(1.4)
Export tax receivable	(4.3)	(18.0)	(4.3)	(18.0)
Foreign exchange and other	1.1	(3.6)	0.9	(3.4)
Income taxes received (paid)	(0.1)	(3.8)	15.0	(91.8)
	(14.4)	(6.4)	(25.9)	32.7
Changes in non-cash working capital items:				
Trade and other receivables	9.0	(6.6)	5.7	(17.0)
Inventory	18.9	5.3	14.6	(53.3)
Prepaid expenses and other assets	(2.8)	6.8	(1.4)	(0.1)
Accounts payable and accrued liabilities	(24.8)	(3.3)	(26.0)	19.7
	0.3	2.2	(7.1)	(50.7)
	(14.1)	(4.2)	(33.0)	(18.0)
Investing activities:				
Acquisition of Calvert Company, Inc. assets	-	(16.1)	-	(16.1)
Additions to property, plant and equipment (Note 7)	(8.1)	(13.3)	(27.2)	(26.2)
Proceeds of property, equipment and other disposals	0.1	0.5	2.2	2.4
Advances and loans repaid (issued)	0.1	-	(1.2)	-
Insurance proceeds	4.7	-	4.7	-
Deposits on purchase of equipment	-	-	-	(2.0)
	(3.2)	(28.9)	(21.5)	(41.9)
Financing activities:				
Drawings on credit facility (Note 10)	25.2	-	62.2	-
Bank indebtedness (repayments)	(0.5)	-	0.5	-
Equipment loan	-	-	0.1	-
Interest payments	(0.9)	(0.1)	(2.1)	(0.2)
Lease payments	(2.7)	(1.6)	(7.1)	(5.4)
Repurchase of shares (Note 14)	-	(10.0)	-	(17.3)
Dividends	(4.0)	(4.1)	(11.9)	(11.4)
Distributions to a non-controlling interest	-	-	-	(0.4)
	17.1	(15.8)	41.7	(34.7)
Decrease in cash and cash equivalents	(0.2)	(48.9)	(12.8)	(94.6)
Cash and cash equivalents, beginning of period	3.2	84.3	15.8	130.0
Cash and cash equivalents, September 30	$ 3.0	$ 35.4	$ 3.0	$ 35.4

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

1. Reporting entity

Western Forest Products Inc. ("Western" or the "Company") is an integrated softwood forest products company, incorporated and domiciled in Canada, operating in the coastal region of British Columbia ("BC") and Washington State. The address of the Company's head office is Suite 800 – 1055 West Georgia Street, Vancouver, BC, Canada. The unaudited condensed consolidated interim financial statements as at and for the three and nine months ended September 30, 2023 and 2022 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 and glulam remanufacturing and wholesaling purchased lumber. The Company is listed on the Toronto Stock Exchange ("TSX"), under the symbol WEF.

2. Basis of preparation

(a) Statement of compliance

These unaudited condensed consolidated interim financial statements ("interim financial statements") have been prepared in accordance with International Accounting Standards ("IAS") 34, *Interim Financial Reporting.* These interim financial statements do not include all of the disclosures required by International Financial Reporting Standards ("IFRS") for annual financial statements, and should be read in conjunction with the Company's annual consolidated financial statements for the year ended December 31, 2022, available at www.westernforest.com or www.sedarplus.ca. Certain comparative prior period figures have been reclassified to conform to the current year's presentation. References to the three and nine months ended September 30 may be referred to as Q3 and YTD, respectively.

The interim financial statements were authorized for issue by the Board of Directors on November 7, 2023.

(b) Basis of measurement

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

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

(c) Functional and presentation currency

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

3. Significant accounting policies

The accounting policies applied by the Company in these interim financial statements are the same as those applied by the Company in its annual consolidated financial statements as at and for the year ended December 31, 2022.

4. Seasonality of operations

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

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

5. Inventory

	September 30, 2023			December 31, 2022		
	Gross carrying value	Provisions	Lower of cost and net realizable value	Gross carrying value	Provisions	Lower of cost and net realizable value
Logs	$ 140.1	$ (28.4)	$ 111.7	$ 161.0	$ (28.2)	$ 132.8
Lumber	96.8	(20.5)	76.3	94.2	(24.9)	69.3
Supplies and other	19.7	-	19.7	22.7	-	22.7
	$ 256.6	$ (48.9)	$ 207.7	$ 277.9	$ (53.1)	$ 224.8

The carrying amount of inventory recorded at net realizable value was $91.0 million at September 30, 2023 (December 31, 2022: $98.4 million), with the remaining inventory recorded at cost.

For the three months and nine months ended September 30, 2023, $230.7 million and $736.8 million (Q3 2022 and YTD 2022: $324.6 million and $909.8 million, respectively) of inventory was charged to cost of goods sold. This includes a decrease in the provision for write-down to net realizable value of $2.7 million and $4.2 million for the three and nine months ended September 30, 2023, respectively (Q3 2022 and YTD 2022: increase of $23.1 million and $31.4 million, respectively).

6. Assets held for sale

Management intends to sell certain manufacturing assets. Accordingly, these assets are presented as an asset held for sale effective September 30, 2023. Fair value, less costs to sell, is expected to exceed the carrying amount.

Once classified as held for sale, plant and equipment are no longer amortized.

As at September 30, 2023, the assets held for sale comprised the following assets and liabilities:

	September 30, 2023
Inventory	$ 2.5
Prepaid expenses and other assets	0.2
Property, plant and equipment	8.4
Assets held for sale	$ 11.1
Lease liabilities held for sale	$ 0.3

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

7. Property, plant and equipment

	Land	Buildings and equipment	Projects	Logging roads	Total, excluding right of use assets	Right of use assets	Total
Cost							
Balance at December 31, 2021	$ 58.6	$ 445.6	$ 15.5	$ 234.3	$ 754.0	$ 33.5	$ 787.5
Acquisition of Calvert Company, Inc. assets	-	5.6	-	-	5.6	2.1	7.7
Additions	-	0.2	41.4	5.9	47.5	9.5	57.0
Disposals	(0.1)	(7.0)	(0.2)	-	(7.3)	(2.0)	(9.3)
Transfers	-	35.2	(38.5)	3.3	-	-	-
Effect of movements in exchange rates	1.0	3.9	(2.0)	2.0	4.9	0.5	5.4
Balance at December 31, 2022	59.5	483.5	16.2	245.5	804.7	43.6	848.3
Additions	-	0.1	21.7	5.6	27.4	5.4	32.8
Reclassification to asset held for sale	(2.1)	(17.2)	-	-	(19.3)	(0.5)	(19.8)
Disposals	(0.1)	(1.1)	(0.3)	-	(1.5)	(1.3)	(2.8)
Transfers	-	14.2	(15.6)	1.4	-	-	-
Effect of movements in exchange rates	-	0.2	-	-	0.2	-	0.2
Balance at September 30, 2023	$ 57.3	$ 479.7	$ 22.0	$ 252.5	$ 811.5	$ 47.2	$ 858.7
Accumulated amortization							
Balance at December 31, 2021		$ 226.6		$ 202.1	$ 428.7	$ 15.6	$ 444.3
Amortization		29.5		10.0	39.5	6.7	46.2
Disposals		(6.0)		-	(6.0)	(1.8)	(7.8)
Effect of movements in exchange rates		0.7		-	0.7	0.2	0.9
Balance at December 31, 2022		250.8		212.1	462.9	20.7	483.6
Amortization		23.1		7.9	31.0	6.4	37.4
Reclassification to asset held for sale		(11.2)		-	(11.2)	(0.2)	(11.4)
Disposals		(1.1)		-	(1.1)	(1.1)	(2.2)
Effect of movements in exchange rates		0.1		-	0.1	-	0.1
Balance at September 30, 2023		$ 261.7		$ 220.0	$ 481.7	$ 25.8	$ 507.5
Carrying amounts							
At December 31, 2022	$ 59.5	$ 232.7	$ 16.2	$ 33.4	$ 341.8	$ 22.9	$ 364.7
At September 30, 2023	$ 57.3	$ 218.0	$ 22.0	$ 32.5	$ 329.8	$ 21.4	$ 351.2

The Company utilized $0.2 million of cash deposits in the nine months ended September 30, 2023 (YTD 2022: $3.2 million) as equipment was delivered.

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

8. Biological assets

Reconciliation of carrying amount

	Three months ended Sept. 30,		Nine months ended Sept. 30,	
	2023	2022	2023	2022
Carrying value, beginning	$ 49.1	$ 48.6	$ 49.1	$ 49.1
Change in fair value due to growth and pricing	0.1	0.2	0.2	0.8
Harvested timber transferred to inventory	-	-	(0.1)	(1.1)
Carrying value, September 30	$ 49.2	$ 48.8	$ 49.2	$ 48.8

Under IAS 41, *Agriculture*, the Company's private timberlands are classified as a growing forest, with the standing timber recorded as a biological asset at fair value less costs to sell at each reporting date.

At September 30, 2023, private timberlands comprised an area of approximately 22,693 hectares (December 31, 2022: 22,693 hectares) of land owned by the Company. Standing timber on private timberlands range from newly planted areas to mature forest available for harvest.

During the three and nine months ended September 30, 2023, the Company harvested and scaled nil cubic meters ("m3") and 33,711 m3 of logs, respectively (Q3 2022 and YTD 2022: 13,531 m3 and 124,045 m3, respectively), from its private timberlands, which had a fair value less costs to sell of $127.91 per m3 at the date of harvest (YTD 2022: $184 per m3).

9. Other assets

	Sept. 30, 2023	Dec. 31, 2022
Export tax receivable and related interest (Note 21 (a))	$ 71.4	$ 63.7
Investments, long-term loans and advances	3.7	11.0
Note receivable	2.6	2.6
Cash deposits on equipment	-	0.2
Other	0.5	0.8
	78.2	78.3
Current portion of other assets	0.3	2.6
	$ 77.9	$ 75.7

10. Long-term debt

	Sept. 30, 2023	Dec. 31, 2022
Credit facility drawings	$ 62.2	$ -
Equipment loan	0.1	-
	62.3	-
Less transaction costs	(0.3)	-
Long-term debt	$ 62.0	$ -
Available Credit Facility	$ 250.0	$ 250.0
Drawings on Credit Facility	(62.2)	-
Outstanding letters of credit	(20.1)	(16.0)
Unused portion of Credit Facility	$ 167.7	$ 234.0

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

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

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

10. Long-term debt (continued)

The Credit Facility is secured by a general security agreement, excluding specified properties and their related assets, and is subject to certain financial covenants, including a maximum debt to total capitalization ratio. On June 29, 2023, certain financial covenants were amended for administrative purposes.

The Company's Credit Facility was drawn by $62.2 million as at September 30, 2023 (December 31, 2022: $nil). The Company was in compliance with its financial covenants as at September 30, 2023.

11. Reforestation obligation

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

	Three months ended Sept. 30,		Nine months ended Sept. 30,	
	2023	2022	2023	2022
Reforestation obligation, beginning	$ 21.8	$ 23.3	$ 22.1	$ 22.4
Provision charged	2.1	1.5	5.6	8.2
Expenditures	(1.9)	(3.2)	(5.9)	(9.2)
Unwind of discount	0.2	0.1	0.4	0.3
	22.2	21.7	22.2	21.7
Less current portion	9.5	8.5	9.5	8.5
Long term reforestation obligation, September 30	$ 12.7	$ 13.2	$ 12.7	$ 13.2

The reforestation expenditures are expected to occur over the next one to ten years and have been discounted at risk-free rates of 4.03% to 5.37% (YTD 2022: 3.17% to 4.06%). The total undiscounted amount of the estimated future expenditures required to settle the reforestation obligation at September 30, 2023 is $25.0 million (December 31, 2022: $24.5 million). Reforestation expense incurred on current production is included in cost of goods sold and the unwinding of discount, or accretion cost, is included in finance costs.

12. Employee future benefits

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

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

	Sept. 30, 2023	Dec. 31, 2022
Present value of obligations	$ 87.1	$ 92.9
Fair value of plan assets	(82.0)	(88.0)
Liability recognized in the statement of financial position (Note 13)	$ 5.1	$ 4.9

The change in the liability recognized in the statement of financial position at September 30, 2023 resulted primarily from lower returns on plan assets, partially offset by an increase in the discount rate used to value the defined benefit obligations. The discount rate used as at September 30, 2023 was 5.65% per annum (December 31, 2022: 5.20% per annum).

The Company expects to make funding contributions to its defined benefit plans of $1.2 million in 2023.

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

13. Other liabilities

	Current	Non-current	Total
As at September 30, 2023			
Defined benefit employee future benefits obligation (Note 12)	$ -	$ 5.1	$ 5.1
Defined contribution employee future benefits obligation	-	1.9	1.9
Environmental provision	0.2	2.6	2.8
Deferred share unit plan liabilities (Note 15(b))	2.2	-	2.2
Performance share unit plan liabilities (Note 15(c))	1.6	0.2	1.8
Restricted share unit plan liabilities (Note 15(d))	0.9	1.2	2.1
Other	-	1.9	1.9
	$ 4.9	$ 12.9	$ 17.8
As at December 31, 2022			
Defined benefit employee future benefits obligation (Note 12)	$ -	$ 4.9	$ 4.9
Defined contribution employee future benefits obligation	-	2.7	2.7
Environmental provision	1.9	1.8	3.7
Deferred share unit plan liabilities (Note 15(b))	2.4	-	2.4
Performance share unit plan liabilities (Note 15(c))	3.8	2.1	5.9
Restricted share unit plan liabilities (Note 15(d))	0.4	1.5	1.9
Other	-	2.4	2.4
	$ 8.5	$ 15.4	$ 23.9

The current portion of Other liabilities is recognized in Accounts payable and accrued liabilities in the Statement of financial position.

14. Share capital

	Number of Common Shares	Amount
Balance at December 31, 2021	328,780,570	$ 420.8
Exercise of stock options	108,585	0.1
Repurchase of shares	(12,146,409)	(15.5)
Balance at December 31, 2022	316,742,746	405.4
Exercise of stock options	2,811	-
Balance at September 30, 2023	316,745,557	$ 405.4

On August 3, 2023, the Western renewed its Normal Course Issuer Bid (“NCIB”) effective August 11, 2023, permitting the purchase and cancellation of up to 15,837,277 of the Company’s common shares, representing 5% of the Company’s common shares outstanding as of August 2, 2023. The renewed NCIB expires August 10, 2024.

No shares were repurchased under the NCIB in the first nine months ended September 30, 2023 (YTD 2022: 9,925,015 shares for $17.3 million at an average price of $1.75 per share, with charges of $12.7 million and $4.6 million to share capital and retained earnings, respectively).

400,000 stock options were exercised in the first nine months ended September 30, 2023 with 2,811 common shares issued on a cashless basis resulting in a $0.4 million credit to retained earnings. (YTD 2022: 250,000 stock options exercised with 108,585 common shares issued on a cashless basis resulting in a negligible charge to retained earnings).

15. Share-based compensation plans

(a) Stock-option plan

The Company has an incentive stock option plan which permits the granting of options to eligible participants to purchase up to an aggregate of 30,000,000 common shares, of which 8,317,475 remain available for future issuance. Each option is exercisable, subject to vesting terms of 20% per year and immediately upon a change in control of the Company, into one common share, subject to adjustments, at a price of not less than the closing price of the common shares on the TSX on the day immediately preceding the grant date. Options granted under the Option Plan expire a maximum of ten years from the date of the grant.

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

15. Share-based compensation plans (continued)

(a) Stock-option plan (continued)

The following table summarizes the change in options outstanding:

	Nine months ended Sept. 30, 2023		Nine months ended Sept. 30, 2022	
	Number of options	Weighted average exercise price	Number of options	Weighted average exercise price
Outstanding at December 31	15,133,457	$ 1.72	15,247,304	$ 1.71
Granted	-	-	500,000	1.47
Exercised	(400,000)	1.27	(250,000)	0.96
Expired	(1,000,000)	1.27	-	-
Forfeited	(2,246,778)	1.64	-	-
Outstanding at September 30	11,486,679	$ 1.79	15,497,304	$ 1.71

For the three and nine months ended September 30, 2023, the Company recorded a negligible compensation expense and recovery for stock options, respectively (Q3 2022 and YTD 2022: $0.1 and $0.2 million expense, respectively), with a corresponding change to contributed surplus.

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

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

	Nine months ended Sept. 30, 2023		Nine months ended Sept. 30, 2022	
	Number of DSUs	Weighted average unit value[1]	Number of DSUs	Weighted average unit value[1]
Outstanding at December 31	2,067,371	$ 1.45	2,288,822	$ 1.43
Granted[1]	638,536	0.97	396,717	1.54
Redeemed	-	-	(97,500)	1.09
Outstanding at September 30	2,705,907	$ 1.34	2,588,039	$ 1.46

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

For the three and nine months ended September 30, 2023, the Company recorded a compensation recovery for DSUs of $0.5 million and $0.7 million, respectively (Q3 2022 and YTD 2022: $0.3 million and $1.7 million recovery, respectively), with a corresponding change to accounts payable and accrued liabilities.

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

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

	Nine months ended Sept. 30, 2023		Nine months ended Sept. 30, 2022	
	Number of PSUs	Weighted average unit value[1]	Number of PSUs	Weighted average unit value[1]
Outstanding at December 31	3,591,951	$ 1.46	3,538,407	$ 1.40
Granted[1]	1,638,257	1.29	970,083	2.05
Redeemed	(1,655,262)	1.08	(718,165)	1.89
Forfeited	-	-	(112,919)	1.46
Outstanding at September 30	3,574,946	$ 1.55	3,677,406	$ 1.47

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

For the three and nine months ended September 30, 2023, the Company recorded a compensation recovery for PSUs of $0.5 and $0.4 million (Q3 2022 and YTD 2022: $0.2 million expense and $0.1 million recovery, respectively), with corresponding changes to accounts payable and accrued liabilities and other liabilities.

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

15. Share-based compensation plans (continued)

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

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

	Nine months ended Sept. 30, 2023		Nine months ended Sept. 30, 2022	
	Number of RSUs	Weighted average unit value[1]	Number of RSUs	Weighted average unit value[1]
Outstanding at December 31	3,438,775	$ 1.61	2,201,462	$ 1.52
Granted[1]	1,568,231	1.28	1,569,680	1.76
Redeemed	(341,235)	1.08	-	-
Forfeited	-	-	(89,095)	1.56
Outstanding at September 30	4,665,771	$ 1.54	3,682,047	$ 1.62

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

For the three and nine months ended September 30, 2023, the Company recorded compensation recovery of $0.1 million and expense of $0.5 million for RSUs, respectively (Q3 2022 and YTD 2022: 0.2 million and $0.4 million expense, respectively) with corresponding changes in accounts payable and accrued liabilities and to other liabilities.

16. Revenue

Disaggregation of revenue

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

	Three months ended Sept. 30,		Nine months ended Sept. 30,	
	2023	2022	2023	2022
Primary geographic markets				
Canada	$ 86.9	$ 170.1	$ 293.9	$ 440.7
United States	88.1	84.0	286.3	355.2
Japan	27.5	52.6	81.9	172.7
China	11.6	24.5	54.9	81.0
Other	13.8	24.8	43.7	103.4
Europe	3.2	-	10.2	-
	$ 231.1	$ 356.0	$ 770.9	$ 1,153.0
Major Products				
Lumber	$ 179.9	$ 267.1	$ 603.3	$ 932.8
Logs	38.4	72.5	129.8	176.0
By-products and other	12.8	16.4	37.8	44.2
	$ 231.1	$ 356.0	$ 770.9	$ 1,153.0

Contract balances

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

	Sept. 30, 2023	Dec. 31, 2022
Trade and other receivables	$ 51.9	$ 60.0
Other investments and advances	1.2	1.4
Contract liabilities	45.0	46.5

Contract liabilities relate to the consideration received from a customer for a long-term fibre supply contract and are recognized as deferred revenue, for which revenue is recognized straight-line over the term of the contract (see Note 21(c)). The Company recognized related revenue of $0.5 million and $1.5 million for the three and nine months ended September 30, 2023 (Q3 2022 and YTD 2022: $0.5 million and $1.5 million, respectively).

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

17. Operating restructuring items

	Three months ended Sept. 30,		Nine months ended Sept. 30,	
	2023	2022	2023	2022
Retirement and other benefits (recovery)	$ (0.3)	$ -	$ 6.3	$ -
Other expense (recovery)	0.1	(0.2)	0.3	0.6
	$ (0.2)	$ (0.2)	$ 6.6	$ 0.6

18. Other income

	Three months ended Sept. 30,		Nine months ended Sept. 30,	
	2023	2022	2023	2022
Gain on disposal of property, plant, and equipment (Note 7)	$ 0.2	$ -	$ 0.3	$ 1.3
Foreign exchange gain	2.0	3.9	0.4	3.7
Other income (expense)	-	0.1	0.6	(0.9)
	$ 2.2	$ 4.0	$ 1.3	$ 4.1

19. Income taxes

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:

	Three months ended Sept. 30,		Nine months ended Sept. 30,	
	2023	2022	2023	2022
Income (loss) before income taxes	$ (23.9)	$ 9.6	$ (75.5)	$ 113.8
Income tax expense (recovery) at statutory rate of 27%	$ (6.5)	$ 2.6	$ (20.4)	$ 30.7
Difference in tax rates	0.1	-	0.3	(0.8)
Other permanent differences	(0.1)	-	0.4	0.8
Change in unrecognized deductible temporary differences	-	-	-	-
Other	-	0.4	-	(0.1)
	$ (6.5)	$ 3.0	$ (19.7)	$ 30.6
Recognized in other comprehensive income (loss)				
Deferred tax expense (recovery)	$ (0.3)	$ (0.3)	$ (0.2)	$ 0.7

20. Earnings (loss) per share

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

	Three months ended Sept. 30, 2023			Three months ended Sept. 30, 2022		
	Net loss attributable to equity shareholders	Weighted average number of shares	Per share	Net income attributable to equity shareholders	Weighted average number of shares	Per share
Issued shares, beginning of period		316,745,557			325,510,128	
Effect of shares:						
Repurchased in the quarter		-			(1,977,134)	
Basic earnings (loss) per share	$ (16.7)	316,745,557	$ (0.05)	$ 6.8	323,532,994	$ 0.02
Effective of dilutive securities:						
Stock options		-			1,753,418	
Diluted earnings (loss) per share	$ (16.7)	316,745,557	$ (0.05)	$ 6.8	325,286,412	$ 0.02

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

20. Earnings (loss) per share (continued)

	Nine months ended Sept. 30, 2023			Nine months ended Sept. 30, 2022		
	Net loss attributable to equity shareholders	Weighted average number of shares	Per share	Net income attributable to equity shareholders	Weighted average number of shares	Per share
Issued shares at December 31		316,742,746			328,780,570	
Effect of shares:						
Issued in the first nine months		2,317			87,504	
Repurchased in the first nine months		-			(3,912,767)	
Basic earnings (loss) per share	$ (54.7)	316,745,063	$ (0.17)	$ 82.7	324,955,307	$ 0.25
Effective of dilutive securities:						
Stock options		154,179*			2,704,135	
Diluted earnings (loss) per share	$ (54.7)	316,745,063	$ (0.17)	$ 82.7	327,659,442	$ 0.25

* 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.

21. Commitments and contingencies

(a) Softwood lumber duty dispute

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

From 2017 onward, as a result of petitions filed by the US Lumber Coalition, and others, and determinations made by the US International Trade Commission, the US Department of Commerce (“DoC”) imposed Countervailing (“CV”) and Anti-dumping duties (“AD”) on shipments to the US from Canada. As a result of these actions, cash deposits for CV were required for Canadian lumber imports to the US effective April 28, 2017 through August 25, 2017, and from December 28, 2017 onwards; and cash deposits for AD were required for Canadian lumber imports to the US effective June 30, 2017 until December 26, 2017, and from December 28, 2017 onwards.

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

The Company expenses export taxes at the cash duty deposit rate as lumber shipments are made. Where final duty rates differed from cash deposit rates, the Company recognized revisions to its export tax expense.

On December 1, 2022, the DoC and US International Trade Commission (“USITC”) initiated a sunset review, required to be conducted no later than five years after an AD or CV order is issued. The DoC review determines whether revoking the orders would be likely to lead to a continuation or recurrence of dumping or subsidies. The USITC review determines whether revoking the orders would be likely to lead to a continuation or recurrence of material injury to the US industry. If both determinations are negative, the orders will be revoked.

On March 27 and April 3, 2023, the DoC issued the final results of its first sunset review of the CV and AD orders, respectively, concluding that if duties on Canadian softwood lumber products were revoked, there would likely be a continuation or recurrence of countervailable subsidies and dumping. These results do not impact the CV and AD rates currently in effect. The USITC’s final results of the sunset reviews are expected in late 2023 or early 2024.

On March 14, 2023, the DoC initiated its fifth AR review of CV and AD rates for shipments in 2022, with a completion deadline of January 31, 2024.

On July 27, 2023, the DoC released its final determination for CV and AD rates from its fourth AR for shipments in 2021, amended on September 7, 2023 for ministerial errors, which resulted in an additional export tax recovery of USD$3.5 million (CAD$4.3 million) recognized in the third quarter of 2023. Effective August 1, 2023, cash deposits will continue at the revised combined duty rate of 8.05% until publication of final rates of the fifth AR in the federal register, after which time the new rates will apply.

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

21. Commitments and contingencies (continued)

(a) Softwood lumber duty dispute (continued)

On October 5, 2023, the North American Free Trade Agreement ("NAFTA") Chapter 19 panel determined that the DoC erred in how it calculated important aspects of the anti-dumping duties applied to Canadian softwood lumber exports and directed the DoC to revisit key elements of its dumping determination by January 12, 2024.

The following table summarizes the cash deposit rates in effect and the final rates applicable to Canadian lumber shipments to the US in 2017 through 2021:

Administrative review				AR5	AR4	AR3	AR2	AR1	AR1
Lumber shipment date	Aug. 1, 2023 onward	Aug. 9, 2022 through July 31, 2023	Jan. 10, 2022 through Aug. 8, 2022	Dec. 1, 2021 through Jan. 9, 2022	Dec. 1, 2020 through Nov. 30, 2021	Jan. 1, 2020 through Nov. 30, 2020	Year 2019	Year 2018	Year 2017
Cash deposit rate									
CV	1.79%	3.83%	6.32%	6.31%	7.42%	14.19%	14.19%	14.19%	14.19%
AD	6.26%	4.76%	11.59%	11.59%	1.57%	6.04%	6.04%	6.04%	6.04%
Combined	8.05%	8.59%	17.91%	17.90%	8.99%	20.23%	20.23%	20.23%	20.23%

Duty rate	2021 Final	2020 Final	2019 Final	2018 Final	2017 Final
CV	1.79%	3.83%	6.32%	7.42%	7.26%
AD	6.26%	4.76%	11.59%	1.57%	1.57%
Combined	8.05%	8.59%	17.91%	8.99%	8.83%

As cash deposit rates exceeded final duty rates for lumber shipments made in 2017 through 2021, the Company recognized a long-term duty receivable totalling USD$52.6 million (December 31, 2022: USD$47.0 million), including interest of USD$6.0 million (December 31, 2022: USD$4.0 million), in its Statement of financial position as at September 30, 2023, which was revalued at the quarter-end exchange rate to CAD$71.4 million (December 31, 2022: CAD$63.7 million).

Interest revenue of $1.2 million and $2.7 million for the three and nine months ended September 30, 2023, respectively were recorded in finance costs (Q3 2022 and YTD 2022: $1.2 million and $1.5 million, respectively). Related foreign exchange gains of $2.1 million and $0.6 million for the three and nine months ended September 30, 2023, respectively were recorded in other income (Q3 2022 and YTD 2022: $3.8 million and $4.5 million gains, respectively).

As at September 30, 2023, the Company had paid $220.9 million of duties, all of which remain held in trust by US Department of Treasury (December 31, 2022: $203.0 million). With the exception of USD$46.6 million (CAD$63.2 million) of duty deposits recognized as a receivable, all duty deposits have been expensed at the cash deposit rates in effect at the date of payment.

(b) Litigation and claims

In the normal course of 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.

(c) Long-term fibre supply agreements

Certain of the Company's long-term fibre supply agreements with third parties have minimum volume requirements and may, in the case of a failure to produce the minimum annual volume, require the Company to conduct whole log chipping or sell saw logs, which could reduce log availability for our sawmills, source the deficiency from third parties at additional cost or incur a penalty under the fibre supply agreements. If the Company takes any significant curtailments in its sawmills its chip production would decline, increasing the risk that the Company would not meet its contractual obligations where it is not possible to secure replacement chips on the open market. Based on chip and pulp log volumes supplied to date and the exercise of force majeure provisions, the Company believes it has satisfied fibre commitments as at September 30, 2023. The Company anticipates satisfying annual fibre commitments for the year ending December 31, 2023.

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

21. Commitments and contingencies (continued)

(d) Tree Farm Licence ("TFL") 44 Allowable Annual Cut Reduction

On June 26, 2023, British Columbia's ("the Province') deputy chief forester set a new allowable annual cut ("AAC") for TFL 44, reducing the allowable annual log harvest from 793,600 cubic metres to 642,800 cubic metres. The lowered AAC was effective immediately and reflects harvest reductions associated with forest resources and socio-economic objectives of the Crown including the reallocation of previously unharvested volume to new forest licences.

The TFL 44 licence is held by the Tsawak-qin Forestry Limited Partnership ("TFLP"), a partnership between Western and Huumiis Ventures Limited Partnership, a limited partnership beneficially owned by the Huu-ay-aht First Nations ("HFN"). The Company, TFLP and the HFN strongly oppose the AAC determination and the allocation of unharvested volume to new forest licences in light of their serious concerns that the allocation significantly affected the AAC determination and are pursuing this matter with the Province. The Company is unable to assess the potential impact of this AAC determination on the business at this time.

22. Financial instruments – fair values and risk management

The Company classifies its financial assets in the following categories: amortized cost, fair value through other comprehensive income ("FVOCI") – debt investment; FVOCI – equity investment; or fair value through profit and loss ("FVTPL"), depending upon the business model in which a financial asset is managed and its contractual cash flow characteristics. The Company's non-derivative financial liabilities are measured at amortized cost using the effective interest method.

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

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

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

		September 30, 2023			December 31, 2022		
	Level	Mandatory at FVTPL	Amortized Cost	Total	Mandatory at FVTPL	Amortized Cost	Total
Financial assets							
Market-based investments	2	$ -	$ -	$ -	$ 4.5	$ -	$ 4.5
Foreign currency forward contracts	2	-	-	-	0.1	-	0.1
Cash and cash equivalents		-	3.0	3.0	-	15.8	15.8
Trade and other receivables		-	51.9	51.9	-	59.9	59.9
Other investments and advances		-	1.0	1.0	-	1.4	1.4
Export tax and related interest receivable (Note 21(a))	3	71.4	-	71.4	63.7	-	63.7
Total financial assets		$ 71.4	$ 55.9	$ 127.3	$ 68.3	$ 77.1	$ 145.4

	Level	Mandatory at FVTPL	Other Financial Liabilities	Total	Mandatory at FVTPL	Other Financial Liabilities	Total
Financial liabilities							
Bank indebtedness (Note 10)		$ -	$ 0.5	$ 0.5	$ -	$ -	$ -
Foreign currency forward contracts	2	-	-	-	-	-	-
Long-term debt (Note 10)		-	62.3	62.3	-	-	-
Accounts payable and accrued Liabilities	2	-	84.6	84.6	-	108.5	108.5
Lease liabilities	2	-	21.8	21.8	-	23.2	23.2
Total financial liabilities		$ -	$ 169.2	$ 169.2	$ -	$ 131.7	$ 131.7

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

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

The Company enters into forward contracts to sell USD and JPY in order to mitigate a portion of the foreign currency risk. At September 30, 2023, the Company had outstanding obligations to sell an aggregate USD$10.0 million at an average exchange rate of CAD$1.3553 per USD with maturities through October 4, 2023.

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

	Three months ended Sept. 30,		Nine months ended Sept. 30,	
	2023	2022	2023	2022
Fair value of liability (asset), beginning of period	$ 0.1	$ 0.1	$ (0.1)	$ (1.1)
Fair value of asset (liability) at September 30	-	1.0	-	1.0
Change in unrealized foreign currency gains (losses)	0.1	(0.9)	(0.1)	(2.1)
Realized foreign currency gains (losses) on settled contracts	(0.6)	(1.6)	0.8	(1.3)
Foreign currency gains (losses) recognized in revenue	$ (0.5)	$ (2.5)	$ 0.7	$ (3.4)

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

23. Subsequent events

(a) New Limited Partnership Formation

On October 23, 2023, the Company and four Vancouver Island First Nations (Tlowitsis, We Wai Kai, Wei Wai Kum, and K'ómoks) (collectively, the "Nations") announced an agreement for the Nations to acquire a 34% interest from Western in a newly formed Limited Partnership ("Partnership") for $35.9 million. The Partnership will consist of certain assets and liabilities of Western's Mid Island Forest Operation, including Block 2 of TFL 39.

The formation of the Partnership and acquisition by the Nations is subject to various closing conditions, including subdivision and tenure transfer approvals from the BC Ministry of Forests. Western and the Nations are working towards closing the transaction in the first quarter of 2024.

(b) Tripartite Framework Agreement on Nature Conservation ("Nature Agreement")

On November 3, 2023, the Government of Canada, the Province and the First Nations Leadership Council announced the signing of the Nature Agreement, extending through March 2030, and intended to further conserve and protect land and water, species and biodiversity in BC.

The Company is unable to assess the potential impact of the Nature Agreement on the Company's business at this time.

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DEFINING A HIGHER STANDARD™

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