Western Forest Products Inc.
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Western Forest Products Inc.

2022 Annual Report

Management's Discussion & Analysis

The following Management's Discussion and Analysis ("MD&A") reports and comments on the financial condition and results of operations of Western Forest Products Inc. (the "Company", "Western", "us", "we", or "our"), on a consolidated basis, for the three months and year ended December 31, 2022, to help security holders and other readers understand our Company and the key factors underlying our financial results. This discussion and analysis should be read in conjunction with our audited annual consolidated financial statements and the notes thereto for the years ended December 31, 2022 and 2021, which can be found on SEDAR at www.sedar.com.

The Company has prepared the consolidated financial statements for the years ended December 31, 2022 and 2021 in accordance with International Financial Reporting Standards ("IFRS"), as issued by the International Accounting Standards Board. Amounts discussed herein are based on our audited annual consolidated financial statements and are presented in millions of Canadian dollars unless otherwise noted. Certain prior period comparative figures have been reclassified to conform to the current period's presentation.

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

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

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

Return on capital employed ("ROCE") is also used in this MD&A as a key performance measure. ROCE is defined as adjusted EBITDA as a proportion of average capital employed. Average capital employed is defined as the average balance over a year of total assets less cash and cash equivalents, income tax receivable, duty receivable and related interest, deferred income tax assets, accounts payable and accrued liabilities and the current portions of lease liabilities, reforestation obligation and deferred revenue. ROCE is a non-GAAP financial measure that does not have a standardized meaning and may not be comparable to similar measures used by other issuers. ROCE is not recognized by IFRS, but is used to determine relative profitability after taking into account the amount of capital used.

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 pending determination by BC's Chief Forester on the annual allowable cut ("AAC") in TFL 19; the impact of COVID-19; the execution of our sales and marketing strategy; the sale of additional incremental equity interests in TFLP; the development and completion of IRMPs or FLP pilots with First Nations; the potential for viable industrial manufacturing solutions for the APD facility; and future AAC determinations for the Company's timber tenures. 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 in COVID-19 and other factors referenced under the "Risks and Uncertainties" section herein. The foregoing list is not exhaustive, as other factors could adversely affect our actual results and performance. Forward-looking statements are based only on information currently available to us and refer only as of the date hereof. Except as required by law, we undertake no obligation to update forward-looking statements. Unless otherwise noted, the information in this discussion and analysis is updated to February 16, 2023.

Summary of Selected Annual Information [1]

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

	2022	2021	2020
Revenue			
Lumber	$ 1,152.5	$ 1,197.5	$ 737.2
Logs	230.9	169.3	200.5
By-products and other	60.6	50.9	27.2
Total revenue	1,444.0	1,417.7	964.9
Operating income prior to restructuring and other items	86.7	247.4	61.2
Net income	61.8	202.8	33.4
Adjusted EBITDA [2]	$ 136.9	$ 302.1	$ 116.8
Adjusted EBITDA margin [2]	9%	21%	12%
Return on capital employed [2]	20%	45%	17%
Diluted earnings, dollars per share	$ 0.19	$ 0.56	$ 0.09
Cash dividends, dollars per share	0.0475	0.0400	0.0225
Total assets	$ 932.8	$ 959.0	$ 852.2
Net debt (cash) [3]	(15.8)	(130.0)	69.2

(1) Included in Appendix A is a table of selected results for the last eight quarters.

(2) Adjusted EBITDA, Adjusted EBITDA margin, and ROCE are non-GAAP financial measures. Refer to the Non-GAAP Financial Measures section of this document for more information on each non-GAAP financial measure.

(3) Net debt (cash), a supplemental measure, is defined as long-term debt and bank indebtedness less cash and cash equivalents.

Overview

Western navigated volatile and changing lumber markets in 2022 to deliver adjusted EBITDA of $136.9 million, Return on Capital Employed (“ROCE”) of 20%, net income of $61.8 million and $0.19 diluted earnings per share. Highlights since the beginning of 2022 include:

- Welcoming Steven Hofer as Western’s President and Chief Executive Officer (“CEO”) in September 2022.
- Continuing with our commitment to health and safety, reducing the Company’s Medical Incident Rate by 9% to 2.80 in 2022, compared to 3.08 in 2021. We also reduced the Company’s Severity Rate by 41% to 44.98 in 2022, compared to 76.82 in 2021.
- Acquiring certain assets of Calvert Company, Inc. (“Calvert”) located in Washington State for US$12.2 million in August 2022. Calvert is one of the most experienced glulam manufacturers in the United States (“US”) and will help position Western to capitalize on the growing mass timber building industry.
- Advancing joint and collaborative planning of forestry activities with First Nations in whose traditional territories we operate in British Columbia (“BC”), building upon Western’s well-established, sustainable forestry practices.
- Advancing $29 million in strategic investments to support value-added manufacturing on the BC Coast and grow our value-added wood products business, all while continuing to improve Western’s long-term competitiveness. Western continues to make progress on these investments which are on track for completion in various stages over the next year.
- Releasing our latest Sustainability Report which included further refinement and disclosure of our Scope 1, 2, and 3 emissions data, adding a 100-year forecast lifecycle carbon assessment and completing a third party limited assurance engagement on our carbon accounting modelling. A copy of our latest Sustainability Report and Carbon Accounting Report is available on our website.
- Continuing with our balanced approach to capital allocation, which included increasing our quarterly dividend per share by 25% and returning $35.6 million to shareholders in 2022 through a combination of dividends and share repurchases.

Strategic Priorities

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. We believe this will be achieved by maximizing the sustainable utilization of our forest tenures, operating safe, efficient, manufacturing facilities, and developing strategic customer relationships for our products. We seek to manage our business with a focus on operating cash flow, margin and return and evaluate our performance using the measure of ROCE.

Under the leadership of a new President and CEO, we have updated our strategic priorities which we believe will drive and create long-term shareholder value and position Western for long-term success. These strategic priorities include:

Business Excellence

Business excellence forms the foundation of our strategic priorities. We believe a focus on operating execution and excellence, with a mindset of continual improvement throughout the entire organization, supports higher margins and returns over the long-term. This includes an unwavering commitment to health, safety and environmental compliance, coupled with a strong focus on improving recovery, efficiency and margin in our operations. We believe developing strategic and positive relationships with customers, First Nations, communities, shareholders and other stakeholders through regular engagement will support the long-term success of our business.

First Nations Partnerships

We operate on the traditional territories of over 50 First Nations and understand the importance of mutually beneficial relationships with First Nations. We have demonstrated success in developing mutually beneficial relationships and partnerships with First Nations, including the Tsawak-qin Forest Limited Partnership in Tree Farm Licence ("TFL") 44 with Huu-ay-aht First Nations. We believe this structure for tenure ownership is a win-win solution for First Nations, communities, Western and other stakeholders and supports our commitment to participating in economic reconciliation. We plan to evaluate and advance other First Nations partnerships and investment opportunities in BC, supporting greater long-term clarity for the stewardship and management of the land base.

Business and Asset Optimization

We believe companies need to consistently evaluate opportunities to optimize their asset and operating portfolio. We have demonstrated past success in monetizing non-core and underperforming assets, while also investing targeted strategic capital throughout our business. We plan to continue to evaluate optimization opportunities in our business, all with a focus on improving financial performance, asset utilizations, return metrics and reducing costs. This includes evaluating how we can strategically implement best-in-class technology in our operations to position our business for success through all market cycles. We take a disciplined approach and target a minimum ROCE on strategic capital investments of 20%.

Growth in Specialty Wood Products

We will continue to evaluate opportunities to grow our business, both organically and inorganically, where we believe we can create long-term shareholder value and be market leaders. This includes evaluating opportunities to move our products further up the value chain, closer to the end customer. Our near-term focus will primarily be in specialty wood products, engineered wood products and mass timber opportunities in our current markets. We will take a disciplined and prudent approach on acquisitions to ensure they are value accretive to shareholders and in business lines where we can excel and add value.

Stewardship and New Revenue Opportunities

We remain committed to best practices, policies and reporting standards related to Environmental, Social and Governance ("ESG"), and the sustainability and stewardship of the assets under our management. We plan to evaluate potential new revenue opportunities for our business related to carbon and carbon credits as the market evolves and develops. We also plan to evaluate opportunities and alternatives for our wood residuals and waste, with the objective of increasing fibre utilization.

Board Succession

On March 1, 2022, the Company announced the appointment of independent director, Fiona Macfarlane, to its Board and on November 3, 2022, the Company announced that Cheri Phyfer, who was appointed to the Board effective March 1, 2019, tendered her resignation effective November 1, 2022 for personal reasons.

On February 16, 2023, Noordin Nanji and Peter Wijnbergen were appointed as independent directors to the Board to replace Ms. Phyfer and as part of the Board's ongoing renewal and succession process.

Mr. Nanji was previously a Partner of Stikeman Elliott LLP, where his practice primarily focused on cross-border mergers and acquisitions, strategic transactions, technology and corporate governance. He previously held various senior executive positions at Ballard Power Systems, including, most recently, Vice President, Strategy and Corporate Development. Mr. Nanji has been recognized as a leading lawyer in corporate, M&A, private equity, forestry, corporate finance and technology. He holds a Juris Doctor from Osgoode Hall Law School and has been designated King's Counsel.

Mr. Wijnbergen was previously the President and CEO of Norbord Inc. Prior to his appointment as President and CEO, he held various senior executive positions at Norbord Inc., including Senior Vice President & Chief Operating Officer and SVP Sales, Marketing and Logistics. Mr. Wijnbergen has 35 years' experience in the forest products industry with roles spanning from business development, operations and sales, marketing and logistics. He holds a Bachelor of Economics from, and has completed the Executive Management Program at the University of Toronto.

On February 16, 2023, as part of the Company's ongoing succession planning process, Michael Waites, the former Chair of the Board, resigned and Daniel Nocente was appointed Chair of the Board. Mr. Nocente has been a director of the Company since 2014 and was previously the Chair of the Audit Committee and Management Resource and Compensation Committee of the Board.

Following the transitions outlined above, the four standing committees of the Board are comprised as follows:

Director	Audit Committee	Environmental, Health and Safety Committee	Management Resources and Compensation Committee	Nominating and Corporate Governance Committee
Laura A. Cillis	Chair	-	-	✓
Steven Hofer	-	-	-	-
Randy Krotowski	✓	Chair	-	-
Fiona Macfarlane	-	✓	Chair	✓
Noordin Nanji	-	✓	-	✓
Daniel Nocente	-	-	-	-
Peter Wijnbergen	✓	-	✓	-
John Williamson	-	✓	✓	Chair

Each standing committee is comprised entirely of independent directors.

The Board regularly evaluates its composition and tenure of Board members. As part of the process in considering new Board members, the Board carefully considers a diverse and broad range of skills, experience and perspectives to best meet the needs of the Company and support the Company's strategy.

Market Outlook

Long-term we believe that housing market fundamentals and growth in mass timber construction will drive demand for lumber and specialty building products, and support pricing above trend levels in North America. We remain excited about the long-term growth opportunity for mass timber building in North America and the role and contribution wood products have to play in a low carbon world.

Near-term we expect lumber markets to remain volatile. Rising interest rates has resulted in slowing demand and economic growth. In response to slowing demand, lumber manufacturers have implemented temporary and permanent production curtailments to bring supply and demand back into balance.

Within our specialty building product offerings, demand and prices for Cedar timber and premium appearance products are expected to remain firm. Demand and prices for Cedar decking, trim and fencing products will remain weaker until supply and demand rebalances. Specialty lumber product pricing in Japan is expected to stabilize and demand should benefit as channel inventories decline. Demand for our industrial products will be product line specific but are expected to remain stable. Demand and prices for North American commodity products are expected to remain volatile in the near-term, but we have seen some moderate commodity market improvements through the beginning of this year.

We expect sawlog markets to follow conditions in the lumber markets, while residual chip pricing is expected to decline due to weaker northern bleached softwood kraft (“NSBK”) prices to China. Logistics constraints experienced in early 2022 have generally abated.

Summary of Selected Quarterly and Annual Results (1)

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

Summary Information		Q4 2022	Q4 2021	Q3 2022	Annual 2022	Annual 2021
Revenue						
Lumber		$ 219.7	$ 268.0	$ 267.1	$1,152.5	$1,197.5
Logs		54.9	48.9	72.5	230.9	169.3
By-products and other		16.4	11.0	16.4	60.6	50.9
		291.0	327.9	356.0	1,444.0	1,417.7
Freight		19.7	21.6	25.6	102.4	93.8
Export tax expense		4.7	4.6	8.0	38.9	29.8
Export tax recovery		-	(3.3)	(18.0)	(18.0)	(3.3)
Stumpage		27.9	25.8	36.4	118.0	63.9
Adjusted EBITDA (2)		$ (11.9)	$ 52.5	$ 17.3	$ 136.9	$ 302.1
Adjusted EBITDA margin (2)		(4%)	16%	5%	9%	21%
Operating income (loss) prior to restructuring and other items		$ (23.6)	$ 39.4	$ 4.7	$ 86.7	$ 247.4
Net income (loss)		(21.4)	28.5	6.6	61.8	202.8
Basic and diluted earnings (loss) per share	$ per share	(0.07)	0.08	0.02	0.19	0.56
Operating Information (3)						
Lumber shipments (3),(4)	mmfbm	155	164	179	716	782
Cedar	mmfbm	27	41	28	144	190
Japan Specialty	mmfbm	14	33	23	97	103
Industrial	mmfbm	21	17	19	74	84
Commodity	mmfbm	92	72	109	402	405
Lumber production	mmfbm	139	179	169	655	760
Lumber price, average	$/mfbm	$ 1,420	$ 1,634	$ 1,495	$ 1,609	$ 1,531
Wholesale lumber shipments	mmfbm	5	11	7	39	42
Log shipments	000 m^3	367	378	404	1,329	1,340
Export	000 m^3	-	6	-	-	82
Domestic	000 m^3	245	241	272	960	814
Pulp	000 m^3	123	132	132	369	444
Net production (5)	000 m^3	658	700	800	3,110	3,090
Saw log purchases	000 m^3	173	211	302	1,093	861
Log price, average (6)	$/$m^3$	$ 142	$ 117	$ 172	$ 161	$ 119
Illustrative Lumber Average Price Data (7)	**Price Basis**					
Grn WRC #2 Clear & Btr 4x6W RL ($C)	cif dest N Euro	$ 9,744	$ 7,671	$10,300	$ 9,844	$ 6,581
Grn WRC Deck Knotty 2x6 RL S4S	Net fob Mill	$ 1,584	$ 1,991	$ 1,720	$ 1,921	$ 2,261
Grn WRC #2 & Btr AG 6x6 RL	Net fob Mill	$ 3,315	$ 3,048	$ 3,315	$ 3,289	$ 2,901
Coast Gm WRC Std&Btr NH 3/4x4 RL S1S2E	Net fob Mill	$ 1,791	$ 2,300	$ 2,189	$ 2,198	$ 2,034
Grn Hem Baby Squares Merch 4-1/8x4-1/8 13’	c&f dest Japan	$ 1,330	$ 1,883	$ 1,638	$ 1,677	$ 1,642
Grn Dfir Baby Squares Merch 4-1/8x4-1/8 RL S4S	c&f dest Japan	$ 1,425	$ 1,980	$ 1,746	$ 1,771	$ 1,776
Grn Dfir (Portland) #1&Btr 100% FOHC 6x6 Rough	Net fob Mill	$ 2,002	$ 1,760	$ 1,961	$ 1,946	$ 1,697
Hemlock Lumber 2x4 (40x90) Metric RG Utility	cif dest Shanghai	$ 397	$ 582	$ 452	$ 485	$ 618
Coast KD Hem-Fir #2 & Btr 2x4	Net fob Mill	$ 494	$ 747	$ 626	$ 842	$ 923
Average exchange rate – CAD to USD		0.737	0.794	0.766	0.768	0.798
Average exchange rate – CAD to JPY		104.06	90.25	105.93	100.55	87.52

(1) Included in Appendix A is a table of selected results from the last eight quarters. Figures in the table may not equal or sum to figures presented in the table or elsewhere due to rounding. Log data reflects British Columbia business only.
(2) Adjusted EBITDA and Adjusted EBITDA margin are non-GAAP financial measures. Refer to the Non-GAAP Financial Measures section of this document for more information on each non-GAAP financial measure.
(3) “mmfbm” = millions of board feet; “mfbm” = thousands of board feet.
(4) Includes wholesale lumber shipments.
(5) Net production is sorted log production, net of residuals and waste.
(6) The average realized log price per cubic metre has been presented on a gross basis, which may include fee-in-lieu and shipping charges incurred on behalf of customers to facilitate sales to export markets.
(7) 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 Fourth Quarter 2022 Results

We reported adjusted EBITDA of negative $11.9 million in the fourth quarter of 2022 as compared to adjusted EBITDA of $52.5 million in the same period last year. Results in the fourth quarter of 2022 reflect compressed margins on lower lumber shipment volumes and $11.8 million of inventory provisions. Net loss for the fourth quarter of 2022 was $21.4 million as compared to net income of $28.5 million in the comparative period of 2021. Financial results for the fourth quarter of 2021 included $3.3 million in export tax recovery, resulting from the finalization of certain US imposed export tax rates.

Adjusted EBITDA in the fourth quarter of 2022 was impacted by market-related production curtailments and incremental operating costs including higher log purchase prices, increased secondary processing costs and higher stumpage rates. Product price declines resulted in $10.7 million of incremental inventory provisions as compared to the same period of 2021. Fourth quarter operating loss prior to restructuring and other items was $23.6 million in 2022, as compared to operating income prior to restructuring and other items of $39.4 million in the same period last year.

Sales

Lumber revenue decreased 18% compared to the fourth quarter of last year. A 5% decline in lumber shipment volumes, lower value sales mix, and weaker Japan prices led to a lower average realized price. Cedar and Japan Specialty shipments declined by 34% and 58%, respectively, with a shift to lower priced Industrial and Commodity shipments which grew by 24% and 28%, respectively. Our Japan shipment volumes for the fourth quarter of 2022 were at multi-year lows, due to increased inventories of European, Russian and domestic supply in Japan.

Our average realized lumber price was $1,420 per thousand board feet, a decrease of 13% from the fourth quarter of last year. Price realization was impacted by a reduction in the percentage of specialty shipments to 40% from 56% in the fourth quarter of last year, partly offset by the benefit of a weaker average Canadian to US Dollar exchange rate. The average CAD to USD exchange rate fell by 7% as compared to the same period last year.

Log revenue was $54.9 million, an increase of 12% from the fourth quarter last year driven by a 21% increase in the average realized BC log price and a slightly stronger sales mix. Market-related operating curtailments limited the harvest of logs and inventory available for sale in the fourth quarter of 2022, but shipments declined by only 3% year-over-year as the harvest in the comparable period was impacted by weather. Continued declines in lumber markets through the fourth quarter of 2022 resulted in significant log market weakness in the latter part of the quarter.

By-products and other revenue were $16.4 million, an increase of $5.4 million as compared to the same period last year, primarily resulting from harvesting services provided to third parties. Chip price realizations improved as a result of mix and increased prices.

Operations

Lumber production declined by 22% in the fourth quarter of 2022 as compared to the same period last year, due to market-related curtailments at our BC sawmills in December. We reduced production to more closely match supply to demand, and manage inventory levels, by curtailing operations and reducing approximately 20 million board feet of planned production. While curtailed, we continued secondary lumber processing activities to drive a reduction in work in progress and overall lumber inventory. We also used this operating downtime to progress certain capital upgrades. Primary manufacturing resumed at most operations in January 2023.

We harvested 658,000 cubic metres of logs from our coastal operations in BC in the fourth quarter of 2022, as compared to 700,000 cubic metres in the same period last year, which had been significantly impacted by weather related curtailments. Log harvest was reduced in the fourth quarter of 2022 to more closely match mill requirements.

Timberlands operating costs increased over the comparative period on lower production volumes, higher helicopter logging harvest volume and higher stumpage expense, somewhat offset by deferred road construction. Stumpage expense increased by 8% as compared to the same period last year, on higher stumpage rates.

BC coastal saw log purchases were 173,000 cubic metres, a decrease of 18% from the same period last year as we reduced purchases in line with curtailments at our BC manufacturing facilities.

Lumber market weakness and related declines in market pricing of inventory held at the end of the year led to net incremental provisions of $10.7 million as compared to the same period last year.

Fourth quarter freight expense decreased 9% compared to the same period last year as a result of reduced lumber shipments and more normalized rates. Global supply chain issues in the comparative period drove elevated costs and the use of higher cost transportation modes, including breakbulk vessels, due to lack of container availability.

Adjusted EBITDA and operating loss included $4.7 million of countervailing duty ("CV") and anti-dumping duty ("AD") expense in the fourth quarter of 2022, as compared to $1.3 million in the same period of 2021. The fourth quarter of 2021 included recognition of a recovery of $3.3 million on the finalization of duty rates for shipments made in 2019. Slightly reduced duty rates offset the impact of increased US-destined lumber shipments quarter-over-quarter.

Selling and Administration Expense

Fourth quarter selling and administration expense was $10.5 million in 2022 as compared to $13.2 million in the fourth quarter last year. This decline was attributable to lower incentive compensation expense resulting from declines in the share price and earnings quarter-over-quarter.

Restructuring

The Company recognized an environmental provision of $2.0 million, and retirement and other benefits of $1.9 million in the fourth quarter of 2022. Restructuring costs of $0.8 million in the comparative period of 2021 were closure costs related to the Somass Division.

Finance Income (Costs)

Finance income was $0.1 million as compared to finance costs of $0.2 million in the fourth quarter last year, primarily as a result of an incremental $0.5 million of interest revenue recognized on our export duty receivable.

Other Income (Expense)

We recognized other expense of $2.0 million in the fourth quarter of 2022 as compared to income of $0.3 million in the same period of 2021. A $0.7 million loss on asset dispositions was recognized in the fourth quarter 2022 as compared to a gain of $0.7 million in the same period last year. In addition, a weakening of the USD to CAD exchange rate resulted in an incremental $1.0 million in foreign exchange losses arising primarily from revaluation of our export tax receivable.

Income Taxes

Current income tax recovery of $14.4 million and deferred income tax expense of $6.4 million were recognized in net loss in the fourth quarter of 2022, a decrease of $18.2 million over the same period of 2021. Lower tax expense was the result of reduced operating income.

Net Income (Loss)

Net loss for the fourth quarter was $21.4 million, as compared to income of $28.5 million for the fourth quarter of 2021 resulting from weaker log and lumber markets, higher costs and increased inventory provisions.

Summary of 2022 Annual Results

Adjusted EBITDA for 2022 was $136.9 million, as compared to $302.1 million for the same period last year. Lower shipments, higher costs and price declines in the latter half of 2022 negatively impacted results. Net income was $61.8 million for 2022, as compared to $202.8 million in the same period last year.

Cost pressures have included an incremental $54.1 million in stumpage expenses, $8.6 million from freight increases, and $9.1 million for higher export taxes. Weaker product pricing at the end of the current year led to increased inventory provisions of $43.2 million as compared to the same period last year. We partly mitigated the declining market conditions and higher operating costs by curtailing log harvest at certain BC operations in the second half of 2022, and lumber production at all BC sawmills in December 2022. This allowed us to manage production to more closely match demand. We also benefitted from $18.0 million export tax recovery in 2022. Operating income prior to restructuring and other items was $86.7 million as compared to $247.4 million in the same period last year.

Sales

Lumber revenue for 2022 was $1,152.5 million, 4% lower than 2021. A 5% increase in realized pricing year-over-year was more than offset by an 8% reduction in shipment volumes.

Our average realized lumber price was $1,609 per thousand board feet, an increase of 5% from the comparable period of 2021, on stronger specialty product price realizations and sales mix in the first half of 2022. Specialty product shipments declined significantly, and pricing weakened in the second half of 2022. Commodity shipments remained constant year-over-year. Having peaked in the second quarter of 2022, commodity lumber prices declined sharply before leveling off in the fourth quarter of 2022, with average pricing for 2022 comparable to 2021. Lumber revenue benefitted from a 4% weaker average Canadian to US Dollar year-over-year.

Log revenue was $230.9 million in 2022, an increase of 36% from 2021, resulting from a 35% increase in average realized BC log prices. Strong lumber markets in the first half of 2022, and limited BC log production drove coastal log prices higher, resulting in a 35% increase in average realized BC log prices in 2022, over the prior year. The lagged impact of lumber price declines in the second half of 2022 drove log market weakness and price reductions late in 2022. Log shipments in 2022 were comparable to the prior year but with an improved sales mix.

By-product and other revenue increased 19% in 2022 versus 2021, due largely to by-product species mix and improved price realizations.

Operations

Lumber production in 2022 was 655 million board feet, 14% lower than the same period last year. Production declined due to log-supply related operating curtailments in the first half of 2022, and market-related curtailments, maintenance and capital projects in the second half of 2022. We reduced production to more closely match supply to demand, and manage inventory levels, by curtailing our BC sawmills in December 2022.

Log production for 2022 was 3.1 million cubic metres, an increase of 1% from 2021. Harvesting was partly impacted by late snow early in 2022 and permitting approval delays, but favourable weather supported uninterrupted logging through the summer. We reduced log harvest in the second half of 2022 to more closely match log supply to mill requirements. The comparative period included an incremental 134,00 cubic metres of log harvest from private timberlands associated with the sale of the Orca Quarry assets.

Timberlands operating costs were higher in 2022 versus the same period last year due to cost impacts of an extended snowpack in 2022, more road building activity, higher contractor and fuel costs, and increased heli-logging. Road building costs increased as we replenished developed timber inventories depleted from weather-related deferrals in the prior year and implemented alternative harvest plans to mitigate permitting delays.

Increased tenure harvest and a 68% increase in average stumpage rate, as compared to 2021, resulted in an incremental $54.1 million in stumpage expense.

We increased our BC coastal saw log purchases by 27% to 1.1 million cubic metres, as compared to last year to ensure fibre availability for sawmill operations.

Lumber market weakness and related declines in market pricing of inventory held at the end of the year led to net incremental provisions of $43.2 million as compared to the same period last year.

Freight expense for 2022 was $102.4 million, an increase of 9% as compared to last year, despite an 8% decline in lumber shipments and the absence of log exports. Higher container rates, increased use of higher priced breakbulk cargo shipments and fuel increases contributed to the rise in freight expense. Freight rates declined through the second half of 2022 as global logistics constraints and fuel surcharges eased but remain above rates in the comparative period. With easing of global logistics constraints and more availability of containers, we eliminated the use of breakbulk shipments in the fourth quarter of 2022.

Adjusted EBITDA and operating income in 2022 included $38.9 million of CV and AD expense, partially offset by $18.0 million duty recovery on finalization of duty rates for shipments made in 2020, as compared to duty expense of $29.8 million in the same period of 2021, partially offset by a recovery of $3.3 million.

Excluding the export tax recovery, higher average lumber prices and cash deposit rates, and a weaker average CAD to USD exchange rate offset the impact of a 25% reduction in US-destined lumber shipments in 2022 as compared to 2021. Cash deposit rates in 2022 were levied at 17.91% until reduced to 8.59% on August 9, 2022, as compared to cash deposit rates of 8.99% in 2021, which increased to 17.91% on December 1, 2021.

Restructuring

The Company recognized a $2.0 million environmental provision, $1.9 million of retirement and other benefits and $0.6 million of shutdown costs related to the Somass Division closure in 2022. The $2.7 million in restructuring costs in 2021 related primarily to Somass Division closure costs.

Selling and Administration Expense

Selling and administration expense for 2022 was $44.5 million as compared to $57.8 million in the same period last year, attributable to lower incentive compensation resulting from declines in the share price and earnings year-over-year.

Finance Income (Costs)

Finance income was $0.1 million in 2022 as compared to finance costs of $1.9 million in the same period of 2021, as a result of an incremental $1.5 million of interest recognized on our outstanding export duty receivable.

Other Income

We recognized other income of $2.1 million in 2022, as compared to $22.4 million in 2021. In 2022, we recognized an incremental $2.9 million of foreign exchange gains arising primarily on revaluation of our export tax receivable resulting from a 7% appreciation of the closing US to Canadian Dollar exchange rate in 2022. In 2021, we also recognized gains on the sale of our Orca Quarry, Somass Division and other non-core assets.

Income Taxes

Current income tax expense of $12.5 million and a deferred income tax expense of $10.1 million were recognized in net income in 2022. The decrease of $39.8 million in tax expense resulted from the decrease in net income before tax over last year. 2021 also benefitted from the utilization of capital losses carried forward to offset other income earned on the sale of assets.

Net Income

Net income for 2022 was $61.8 million, as compared to net income of $202.8 million for the same period last year due to compressed margins on lower shipment volumes. Also contributing to increases in our costs were higher stumpage, export tax and freight rates, higher inventory provisions, partially offset by the recognition of $18.0 million in export tax recovery.

BC Operations Strategic Investments Update

Western continues to make progress on the previously announced strategic investments. All projects remain on budget and on track for completion in various stages by the end of 2023.

- The $12.3 million kiln control system at the Saltair sawmill is entering its initial planning stage, with completion targeted for the end of 2023.
- The optimization of the centralized planer facility at the Duke Point facility in Nanaimo, BC, totals $7.9 million. The related capital expenditures through December 31, 2022 total $4.5 million.
- Other strategic investments total $8.3 million with expenditures to date totalling $5.0 million and including several completed projects.

Alberni Pacific Division (“APD”)

On January 26, 2023, the Company announced it would not restart its APD facility in its current configuration and established a multi-party working group. The working group, which includes representatives from Western, the United Steelworkers union (“USW”), Indigenous partners and contractually-aligned business, will explore potential viable industrial manufacturing solutions for the site over a 90 day period.

In 2022, Western, Tsawak-qin Forestry Limited Partnership ("TFLP") and Huu-ay-aht First Nations ("HFN") commissioned a third party forest products consulting firm, The Beck Group, to look at long-term economically viable primary manufacturing options for APD. Analysis considered the factors of rapidly changing fibre supply and timber profile, forest policies and global market dynamics. The report concluded that operating the mill in its current state is not feasible, and that the investment required to upgrade the mill to be competitive is not financially viable for Western.

The mill was curtailed at various times in 2022 due to a combination of market demand and log availability.

The Company did not recognize an impairment in respect of the APD assets as at December 31, 2022 as the estimated fair value of the assets is in excess of the carrying value.

Indigenous Relationships

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

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

In collaboration with Indigenous groups, and as presented below, we have achieved a series of milestone agreements in 2022 that advance our mutually beneficial relationships and exemplify Western's ongoing actions to support reconciliation. Further details on these relationships and other community initiatives are available on our website at www.westernforest.com/responsibility/community/.

Integrated Resource Management Plan ("IRMP") with Nanwakolas Council

On January 19, 2022, Western and the Nanwakolas Council, representing Tlowitsis, K'ómoks, Wei Wai Kum and We Wai Kai First Nations, announced the Joint Planning and Reconciliation Agreement, which includes the development of an Indigenous-led IRMP for managing forests in TFL 39 (Block 2) over the next two years. The agreed collaborative planning efforts are expected to integrate the Nations' perspectives, values, and interests with the intent of enhancing forest stewardship, creating socio-economic opportunities, and providing greater operating certainty. In recent years, we have engaged in several innovative projects together with Nanwakolas Council, including joint development and the ongoing implementation of the 2020 Information Sharing Protocol and the Nanwakolas Large Cultural Cedar Declaration.

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

On February 15, 2022, Western and Tla'amin Nation ("Tla'amin") announced a timber harvesting services contract to provide incremental harvest capacity in TFL 39 (Block 1), through Thichum Forest Products LP, a company beneficially owned by Tla'amin. The contract supports the ongoing relationship between Western and Tla'amin and builds on the Renewal Agreement signed in July 2021 by demonstrating progress in advancing innovative and mutually beneficial activities in the Tla'amin territory. This initiative is in addition to the planned development of a two-year, values and science-based, Tla'amin led, collaborative Tla'amin Territory Forest Resources Plan for Tla'amin treaty lands and Crown tenure areas, as well as the portion of Western's TFL 39 (Block 1) located in Tla'amin territory.

Quatsino First Nation Bridging Agreement and IRMP

On June 14, 2022, Western and the Quatsino First Nation ("Quatsino") entered a three-year Bridging Agreement that provides for joint forest operations in Quatsino traditional territory and allows for ongoing, meaningful collaboration in territorial planning through an IRMP guided by Quatsino's Land Use Plan and values.

The approach taken in the Bridging Agreement aims to increase collaboration between the parties in the forestry business and generate social, cultural and economic benefits for Quatsino through the expansion of the Quatern Limited Partnership, and thus Quatsino's role in the forestry industry. Further, the agreement is intended to provide for a period of increased stability for forestry workers and North Island communities, while a longer-term reconciliation arrangement is pursued.

Tsawak-qin Forestry Limited Partnership and IRMP with Huu-ay-aht First Nations

Our relationship with HFN has grown through development of a suite of mutually beneficial agreements since 2017, including the sale of our former Sarita Dryland Sort assets, employment and training agreements, and the 2018 Reconciliation Protocol Agreement, which set the framework for a shared path to reconciliation and a joint vision for a competitive forest sector in the Alberni Valley. The foregoing agreements formed the foundation for the establishment of Western and HFN (through a limited partnership beneficially owned by HFN) joint ownership interest in TFLP. TFLP's assets consist of Tree Farm Licence 44 and certain other associated assets and liabilities of our former Port Alberni Forest Operation.

On May 3, 2021, Western completed the sale of an incremental 28% equity interest in TFLP, to Huumiis Ventures Limited Partnership ("HVLP"), a limited partnership beneficially owned by HFN, for $22.4 million. With the completion of that transaction, HVLP's current equity interest in TFLP is 35%.

We had previously agreed to HVLP acquiring a further 16% equity interest in TFLP and a 7% equity interest in a newly formed limited partnership which would own the APD facility ("APD LP"). The transactions are subject to satisfaction of closing conditions and had an anticipated closing in the second quarter of 2023. Due to changing circumstances since the time that agreement was made, HVLP confirmed in 2022 that it does not expect to complete the incremental equity acquisition in TFLP or the equity acquisition in an APD LP at this time. Western also had an option to sell up to an incremental 26% equity interest in TFLP to other area First Nations. That option has now expired; however, Western, together with HFN, is continuing discussions with interested area First Nations around acquiring an equity interest in TFLP.

In the first half of 2021, Western also began the co-development of the HFN-led Hišuk ma c̓awak IRMP which is anticipated to be completed in 2023.

Regulatory Environment

During 2020 and 2021, the Province introduced various policy initiatives and regulatory changes that impact the BC forest sector regulatory framework as part of a Coastal Revitalization Initiative and Interior Renewal Process, including: fibre recovery, lumber remanufacturing, old growth forest management and the exportation of logs. For additional details on these policy initiatives and regulatory changes please see *"Regulatory Risks"* under the heading *"Risks and Uncertainties"*.

Current provincial policy requires that forest management and operating plans take into account and not unreasonably infringe on Aboriginal rights and title, proven or unproven, and provide for First Nations consultation. First Nation opposition to a forest tenure or other operating authorization may delay the Province from granting the permit necessary for road development and harvesting.

For additional details on these policy requirements and regulatory aspects in relation to First Nations see "*Land Claims by Indigenous Groups"* and *"Regulatory Risks"* under the heading *"Risks and Uncertainties"*. The Company may manage risks associated with delays in the Province granting operating authorizations by fostering positive working relationships with the First Nations, as discussed above. The Company may partly mitigate the operating impacts of permit delays by increasing permitted harvest in other areas; by purchasing more logs on the open market; and by increasing harvest production from private timberlands.

Old-Growth Logging Deferral

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

On November 2, 2021, the Province announced its intention to work in partnership with First Nations on the proposed, temporary deferral of harvesting in 2.6 million hectares of BC forests. The proposed, temporary deferrals, if implemented, are subject to First Nations engagement. The Province has stated that final decisions on proposed, temporary deferral areas will be based on discussions between the Province and First Nations governments. Western will work with First Nations and government as these decisions are made, respecting the rights and title of First Nations, including their right to economically benefit from the lands within their traditional territories.

At this time, Western requires more specific information on the Province's proposed measures to meaningfully assess any potential impacts on the Company's business. Determination of potential impacts will be subject to further dialogue with the First Nations on whose territories the Company operates and their government-to-government discussions. Should the proposed measures impact Western's business, the Company will seek support from the Province for its workers and full compensation for investments.

Western has entered into joint planning processes with multiple first nations across the majority of our tenures with the objective to develop IRMPs. These IRMPs will address Old Growth as well as other values on the landbase where Western operates in a comprehensive way. Substantial progress was made in 2022 on several of these plans in TFLs in which Western operates.

On December 2, 2021, the HFN announced that they will be upholding their right to harvest in four percent of the proposed, temporary deferral area identified by the government's Technical Advisory Panel ("TAP") in their traditional territory and TFL 44. The remaining 96 percent of the TAP proposed, temporary deferral area is already protected under exiting conservation measures or not planned for harvesting in the next two years.

HFN's preliminary decision is supported by their assessment that 33 percent of the total productive forest area within their traditional territory and TFL 44 is old forest. HFN along with TFLP have engaged experts in the fields of forest ecology to develop an IRMP that will guide final decisions on proposed, temporary deferrals. The work will continue through 2023.

On January 19, 2022, Western and four member Nations of the Nanwakolas Council announced an agreement to work on a joint approach to managing forests in TFL 39 (Block 2). This announcement followed an October 2021 Letter of Understanding between the parties, with an intent to complete a collaborative plan that addresses shared interests within the next two years. Among those agreed items was a temporary harvest deferral area of 1,068 hectares proposed by TAP, which is in addition to a pre-existing temporary harvest deferral of 1,506 hectares for previously agreed bi-lateral initiatives between the Nanwakolas Council and Western. These temporary deferral areas represent approximately 1% of the total area of TFL 39 (Block 2).

Forest and Range Practices Act Amendments

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

Timber Tenure Replacements and Reduction

Approximately 89% of Western's 5,914,000 cubic metre sustainable allowable annual cut ("AAC") is in the form of TFLs. TFLs are granted for 25-year terms and are replaced by the Province every five to ten years with a new 25-year term. The Company's replaceable AAC comes from six TFLs (TFL 6, TFL 19, TFL 25, TFL 37, TFL 39 and TFL 44). TFL 6 was replaced in March 2020, TFL 25 was replaced in May 2019, and TFL 37 was replaced in March 2017. TFL 44 was replaced in August 2019. TFL 19 and TFL 39 are due to be replaced and the Ministry is currently consulting with potentially affected First Nations regarding the replacement of these TFLs.

Provincial legislation requires the Chief Forester to routinely review sustainable harvesting levels of individual tenures at least every 10 years and to issue a determination which may result in an increase or decrease to AAC. The AAC determination reflects tree growth, ecology, regional and local economic and social interests, water and other environmental considerations that define how forests can be managed.

The Provincial Chief Forester's final determination on the AAC in TFL 19 was delayed in 2022. We expect a decision in 2023. The current AAC in TFL 19 is approximately 729,000 cubic metres. We expect that determination may reduce the AAC of TFL 19 by up to 18% or approximately 130,000 cubic metres.

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

Financial Position and Liquidity [1]

(millions of Canadian dollars except where otherwise noted)

Selected Cash Flow Items	Q4 2022	Q4 2021	Q3 2022	YTD 2022	YTD 2021
Operating activities					
Net income	$ (21.4)	$ 28.5	$ 6.6	$ 61.8	$ 202.8
Amortization	12.0	12.7	12.7	50.2	50.9
(Gain) loss on disposal of property, equipment and other assets	0.7	(0.7)	-	(0.6)	(23.3)
Income tax expense (recovery)	(8.0)	10.2	3.0	22.6	62.4
Income taxes (paid) refunded	(2.1)	0.1	(3.8)	(93.9)	-
Share-based compensation expense (recovery)	(0.6)	1.5	0.2	(1.8)	12.3
Export tax receivable	-	(3.3)	(18.0)	(18.0)	(3.3)
Other	2.0	(1.2)	(7.1)	(5.0)	2.9
	(17.4)	47.8	(6.4)	15.3	304.7
Change in non-cash working capital items	25.1	(7.7)	2.2	(25.6)	(23.1)
Cash provided by (used in) operating activities	7.7	40.1	(4.2)	(10.3)	281.6
Investing activities					
Acquisition of Calvert net assets	-	-	(16.1)	(16.1)	-
Additions to property, plant and equipment	(15.4)	(11.1)	(7.3)	(32.6)	(20.4)
Additions to capital logging roads	(2.7)	(2.6)	(6.0)	(11.7)	(11.5)
Proceeds on disposal of property, equipment and other	0.3	0.7	0.5	2.7	52.0
Proceeds from disposition of minority interest in subsidiary	-	-	-	-	19.8
Other	(0.2)	-	-	(2.2)	(1.2)
Cash provided by (used in) investing activities	(18.0)	(13.0)	(28.9)	(59.9)	38.7
Financing activities					
Repayment of credit facility	-	-	-	-	(70.2)
Dividends	(3.9)	(3.3)	(4.1)	(15.3)	(14.3)
Share repurchases	(3.0)	(34.5)	(10.0)	(20.3)	(96.9)
Lease payments	(2.1)	(1.9)	(1.6)	(7.5)	(7.2)
Other	(0.3)	(0.5)	(0.1)	(0.9)	(4.6)
Cash used in financing activities	(9.3)	(40.2)	(15.8)	(44.0)	(193.2)
Increase (decrease) in cash	$ (19.6)	$ (13.1)	$ (48.9)	$(114.2)	$ 127.1

Summary of Financial Position	Dec.31 2022	Dec.31 2021	Sept.30 2022
Cash and cash equivalents	$ 15.8	$ 130.0	$ 35.4
Current assets	339.8	411.0	395.4
Current liabilities	125.8	194.3	154.6
Total debt	-	-	-
Net debt (cash) [2]	(15.8)	(130.0)	(35.4)
Equity, excluding non-controlling interest	647.2	612.1	676.0
Total liquidity [3] [6]	249.8	371.4	269.1
Financial ratios			
Current assets to current liabilities [4]	2.70	2.12	2.56
Net debt to capitalization [5] [6]	-	-	-

(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 by operating activities in 2022 was $10.3 million as compared to cash generated of $281.6 million in 2021. Compressed margins and lower specialty sales volumes reduced cash generated from operations in 2022 as compared to 2021. Cash tax payments of $93.9 million in 2022 further reduced cash generated from operating activities.

Cash used by investing activities in 2022 was $59.9 million as compared to cash provided of $38.7 million in 2021. Incremental investments included $16.1 million to acquire the Calvert assets and $12.4 million for strategic capital projects. In the comparative year, we received $71.8 million in proceeds from the disposal of non-core assets and the sale of a non-controlling interest in TFLP.

Cash used in financing activities in 2022 was $44.0 million, as compared of $193.2 million in 2021. We returned $35.6 million to shareholders via dividends and share repurchases in 2022 as compared to $111.2 million in the prior year. Significantly higher operating cash flow facilitated the full repayment of credit facilities and incremental share repurchases in the prior period.

Liquidity and Capital Resources

Total liquidity was $249.8 million at December 2022, as compared to $371.4 million at the end of last year. Liquidity is comprised of cash and cash equivalents of $15.8 million and unused availability under the credit facility of $234.0 million.

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 all its financial covenants as at December 31, 2022.

Summary of Contractual Obligations

The following table summarizes our contractual obligations at December 31, 2022, and our payments due for each of the next five years and thereafter, including estimated interest payments:

(*millions of Canadian dollars*)	Total	2023	2024	2025	2026	2027	Thereafter
Accounts payable and accrued liabilities	$ 108.5	$ 108.5	$ -	$ -	$ -	$ -	$ -
Purchase commitments	13.5	13.5	-	-	-	-	-
Income taxes	0.7	0.7	-	-	-	-	-
Lease liabilities	26.0	8.7	5.4	4.8	3.3	0.9	2.9
Reforestation obligation	24.5	8.5	4.0	2.6	1.7	1.4	6.3
Defined benefit pension plan funding payments	6.2	0.5	0.7	0.7	0.7	0.7	2.9
	$ 179.4	$ 140.4	$ 10.1	$ 8.1	$ 5.7	$ 3.0	$ 12.1

Dividend and Capital Allocation

We remain committed to a balanced approach to capital allocation. To return capital to shareholders, we reinstated a regular quarterly dividend in 2021 and continue to repurchase Common Shares under our NCIB.

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

Quarterly Dividend

Dividends of $3.9 million and $15.3 million were paid in the three and twelve months ended December 31, 2022, respectively.

The quarterly dividend program is intended to return a portion of the Company's cash to shareholders, after taking into consideration liquidity and ongoing capital needs.

In February 2021, the Company's Board of Directors reinstated a quarterly dividend of $0.01 per Common Share, which had been suspended in response to the global economic uncertainty arising from COVID-19 and added financial requirements of resetting the business after the lengthy strike that occurred in 2019 and ended in 2020.

In the second quarter of 2022 the Company increased its dividend to $0.0125 per Common Share. The Company's Board of Directors will continue to review our dividend on a quarterly basis.

Normal Course Issuer Bid

On August 3, 2022, the Company renewed its NCIB permitting the purchase and cancellation of up to 27,420,905 Common Shares beginning August 11, 2022, representing 10% of the public float outstanding as of August 3, 2022. The Company also entered into an automatic share purchase plan with its designated broker to facilitate purchases of its Common Shares under the NCIB at times when the Company would ordinarily not be permitted to purchase its Common Shares due to regulatory restrictions or self-imposed blackout periods.

In 2022, we repurchased and cancelled 12,146,409 Common Shares for $20.3 million at an average price of $1.67 per Common Share. In 2021, 47,702,569 Common Shares were repurchased for $96.9 million at an average price of $2.03 per Common Share.

Softwood Lumber Duty Deposits

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

Western expensed $38.9 million of export duties on its lumber shipments into the US in 2022 and recognized an offsetting export tax recovery of $18.0 million arising from the Department of Commerce's ("DoC") final determination on assessed rates for 2020 shipments. Export duty tax was comprised of CV and AD at a combined rate of 17.91% on all lumber Western sold into the US until August 8, 2022 and a combined rate of 8.59% effective August 9, 2022.

On January 24, 2023, the DoC released its preliminary determination for CV and AD rates resulting from its fourth administrative review of rates for shipments in 2021, indicating a combined rate of 8.24%. The DoC may revise these rates between the preliminary and the final determination, expected to be released in the third quarter of 2023. Cash deposits continue at the combined duty rate of 8.59% until the final determinations are published, after which the 2021 rate will apply. For a summary of cash deposit, preliminary and final CV and AD rates applicable to lumber shipment dates, please see "*Risks and Uncertainties – Softwood Lumber Dispute*",

At December 31, 2022, Western had $203.0 million (USD $149.9 million) of cash on deposit with the US Department of Treasury in respect of these softwood lumber duties, of which $58.3 million (USD $44.0 million) is recognized in the Company's balance sheet arising from final rate determinations for Canadian shipments made to the US in 2017 through 2020.

Including wholesale lumber shipments, our sales to the US market represent approximately 25% of our total lumber shipments in 2022. Our distribution and processing centre in Arlington, Washington, and our Columbia Vista division in Vancouver, Washington are expected to partially mitigate the damaging effects of duties on our products originating from Canada that are destined for the US market. We intend to leverage our flexible operating platform to continue to partially mitigate any challenges that arise from this trade dispute.

Non-GAAP Financial Measures

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

(millions of Canadian dollars except where otherwise noted)

Adjusted EBITDA	**Q4 2022**	**Q4 2021**	**Q3 2022**	**Annual 2022**	**Annual 2021**	**Annual 2020**
Net income (loss)	$ (21.4)	$ 28.5	$ 6.6	$ 61.8	$ 202.8	$ 33.4
Add:						
Amortization	12.0	12.7	12.7	50.2	50.9	53.5
Changes in fair value of biological assets	(0.2)	0.2	(0.2)	0.1	3.7	2.4
Operating restructuring items	3.9	0.8	(0.2)	4.5	2.7	2.1
Other (income) expense	2.0	(0.3)	(4.0)	(2.1)	(22.4)	5.0
Finance (income) costs	(0.1)	0.2	(0.7)	(0.1)	1.9	5.9
Current income tax (recovery)	(14.4)	10.5	(3.4)	12.5	64.1	(0.1)
Deferred income tax (recovery)	6.4	(0.3)	6.4	10.1	(1.7)	14.7
Adjusted EBITDA	$ (11.9)	$ 52.5	$ 17.3	$ 136.9	$ 302.1	$ 116.8
Adjusted EBITDA margin						
Total revenue	$ 291.0	$ 327.9	$ 356.0	$1,444.0	$1,417.7	$ 964.9
Adjusted EBITDA	(11.9)	52.5	17.3	136.9	302.1	116.8
Adjusted EBITDA margin	(4%)	16%	5%	9%	21%	12%

Net debt to capitalization	**Dec. 31 2022**	**Dec. 31 2021**	**Sept. 30 2022**
Net debt			
Total debt	$ -	$ -	$ -
Cash and cash equivalents	(15.8)	(130.0)	(35.4)
Net debt (cash)	$ (15.8)	$ (130.0)	$ (35.4)
Capitalization			
Net debt (cash)	$ (15.8)	$ (130.0)	$ (35.4)
Add: Total equity attributable to equity shareholders of the Company	647.2	612.1	676.0
Capitalization	$ 631.4	$ 482.1	$ 640.6
Net debt to capitalization	-	-	-

Total liquidity	**Dec. 31 2022**	**Dec. 31 2021**	**Sept. 30 2022**
Cash and cash equivalents	$ 15.8	$ 130.0	$ 35.4
Available credit facility	250.0	250.0	250.0
Less:			
Outstanding letters of credit	(16.0)	(8.6)	(16.3)
Total liquidity	$ 249.8	$ 371.4	$ 269.1

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

(millions of Canadian dollars except where otherwise noted)

Return on Capital Employed	**2022**	**2021**	**2020**
Trade and other receivables	$ 60.0	$ 57.4	$ 66.8
Inventory	224.8	207.2	177.9
Prepaid expenses and other assets	21.8	16.4	16.1
Property, plant and equipment	364.7	343.2	383.3
Timber licences	96.3	100.3	105.0
Biological assets	49.1	49.1	53.6
Other assets	75.7	55.2	46.3
Goodwill	7.0	-	-
	899.4	828.8	849.0
Less:			
Duty receivable and related interest	63.7	40.4	36.7
Accounts payable and accrued liabilities	108.5	112.8	108.7
Current portion of lease liabilities	6.8	5.5	6.2
Current portion of reforestation obligation	8.3	9.9	8.1
Current portion of deferred revenue	2.0	2.0	2.0
	189.3	170.6	161.7
Net capital employed at December 31	710.1	658.2	687.3
Net capital employed at January 1	658.2	687.3	709.4
Average capital employed	$ 684.2	$ 672.8	$ 698.4
Adjusted EBITDA divided by average capital employed	20%	45%	17%

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

Critical Accounting Estimates

Reforestation Obligation

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

Costing and Valuation of Inventory

We cost our inventory using complex models that are required due to our integrated supply chain and the variability in the species and grades of log and lumber inventory. We cost our inventory at the average cost of production by facility, species and product for lumber and by end sort for each operation for logs. We value our log and lumber inventories at the lower of cost and net realizable value. We estimate net realizable value by reviewing current market prices for the specific inventory items based on current sales orders and recent sales prices. If the net realizable value is less than the cost amount, we will record a provision. The determination of net realizable value at a point in time is generally both objective and verifiable. However, changes in product prices can occur suddenly, which could result in a material provision in inventories in future periods.

Valuation of Accounts Receivable

We record an allowance for the collection of doubtful accounts receivable based on our best estimate of potentially uncollectible amounts. The best estimate considers past experience with our customer base and a review of current economic conditions and specific customer issues. The Company’s general practice is to insure substantially all lumber receivables for 90% of value with the Export Development Corporation or Coface Canada, except for log and lumber sales sold to China or Japan, which are sold on either a cash basis or secured by irrevocable letters of credit, which limits the Company’s credit exposure.

Pension and Other Post Retirement Benefits

Western has various defined benefit and defined contribution plans, a group Registered Retirement Savings Plan ("RRSP"), and Supplemental Executive Retirement Plan that provide retirement benefits to its eligible salaried employees. A group RRSP is provided to certain hourly employees not covered by forest industry union plans. The Company also provides other post-retirement benefits and pension bridging benefits to eligible retired employees. Our defined benefit plans were closed to new entrants effective June 30, 2006. No further benefits accrue under these plans for years of service after December 31, 2010, and no further benefits accrue under these plans for compensation increases effective December 31, 2016.

We retain independent actuarial consultants to perform actuarial valuations of plan obligations and asset values, and advise on the amounts to be recorded in the financial statements. Actuarial valuations include certain assumptions that directly affect the fair value of the assets and obligations and expenses recorded in the financial statements. These assumptions include the discount rate used to determine the net present value of obligations, the return on plan assets used to estimate the increase in the plan assets available to fund obligations, and medical and health care costs used to estimate obligations. Actual experience can vary materially from the estimates and impact the cost of our pension and post-retirement medical and health plans and future cash flow requirements.

Environmental Provisions

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

Contingencies

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

Valuation of Biological Assets

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

Impairments

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

Income Tax Assets and Liabilities

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

Deferred Income Taxes

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

Accounting Policies and Standards

A number of new and amended IFRS standards are not yet effective for the year ended December 31, 2022 and have not been applied in preparing these financial statements. None of the standards are currently considered by the Company to be significant or likely to have a material impact on future financial statements.

Financial Instruments and Other Instruments

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

During 2022, the Company entered into foreign exchange forward contracts to sell USD and JPY in order to partially mitigate its foreign currency risk. At December 31, 2022, the Company had forward contracts in place to sell an aggregate USD $16.0 million (2021: USD $71.0 million). An asset of $0.1 million (2021: 1.1 million) was recognized in relation to foreign exchange forward contracts outstanding as at December 31, 2022 which is included in trade and other receivables in the consolidated statement of financial position. A net loss of $1.8 million was recognized on contracts that matured during the year (2021: net loss of $1.4 million), which is included in sales in the consolidated statement of comprehensive income.

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 December 31, 2022 such instruments aggregated $20.1 million (December 31, 2021 - $14.3 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

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

	Years ended December 31,	
	2022	2021
Salaries, directors’ fees and short-term benefits	$ 10.0	$ 9.7
Post-employment benefits	0.9	1.6
Share-based compensation, including mark-to-market adjustment	(1.7)	10.7
	$ 9.2	$ 22.0

Reduced net income and share price in 2022 resulted in the decline in compensation paid to related parties as compared to 2021.

Risks and Uncertainties

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

Regulatory Risks

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

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

Under both the federal and provincial surplus tests, the logs must be advertised for local consumption. Logs are declared surplus and may be exported if there are no offers on the advertised logs by domestic manufacturers. In practice, domestic offers on export volume can be satisfied with replacement volume to minimize operational impacts.

The Company did not export any logs in 2022 and does not expect to export logs in 2023.

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

In 2018, the BC Provincial Government introduced a Coastal Revitalization Initiative and further policy initiatives that will affect the BC forest sector regulatory framework.

In 2019 the Province became the first province in Canada to adopt the principles of the United Nations Declaration on the Rights of Indigenous Peoples (“UNDRIP”) through the bringing into force of Bill 41, *Declaration on the Rights of Indigenous Peoples Act*. The Act requires the Province to align all laws with UNDRIP, to develop an action plan to achieve this, and regularly report to the legislature to monitor progress. The Canadian federal government has also pledged to implement UNDRIP and the Calls to Action of the Truth and Reconciliation Commission. Significant expectation has been raised among Aboriginal groups in BC and across the country as to the impact that this Act and the federal government’s commitments may have on efforts to achieve true reconciliation with Aboriginal groups. At this time, the Company is unable to predict the outcome of the Act and the implementation of these commitments on Western’s ongoing operations or assets.

Notable legislative changes and policy initiatives undertaken since 2019 are as follows:

- On April 1, 2019, the Province announced the creation of fibre recovery zones. Western estimates that approximately 70% of our timberland operations are impacted with the creation of fibre recovery zones. We continue to collaboratively engage with the Province and other stakeholders to ensure that the desired outcome of the policy, less fibre waste and more fibre for domestic manufacturing and pulp production, is met without the unintended consequences of higher costs and less harvest volume for timberland operators. In December 2019, the BC Ministry of Forests, Lands, Natural Resource Operations and Rural Development ("MFLNRO") indicated its intention to reduce the penalties and delay implementation of fibre recovery zones and in August 2022, the fibre recovery zones were reimplemented.
- On May 16, 2019, the Province brought into force Bill 21, Forest and Range Practices Amendment Act, 2019, designed to increase opportunities for public input, improve information sharing on forest planning, strengthen the Minister of Forests' ability to manage forest activity, expand the definition of wildlife to help protect at-risk species and improve and streamline range-use planning.
- On May 30, 2019, the Province brought into force Bill 22, Forest Amendment Act, 2019, amending the *Forest Act* to require tenure holders to receive approval from the Minister of Forests before disposing or transferring a tenure agreement to a third party. These amendments enable the Minister of Forests to refuse to approve, or place conditions on the approval of, a disposition or transfer if it is deemed not to be in the public interest or detrimental to competition in the buying or selling of timber or residuals.
- On July 17, 2019, the Province announced the appointment of a two-person panel to lead an Old Growth Strategic Review. On April 30, 2020, the Province released publicly the report provided by the panel (the "Report"), including fourteen recommendations to inform old-growth management for BC.
- In January 2020, the Province announced changes to the Manufactured Forest Products Regulation ("MFPR"). The amendments to the MFPR require wood products made from WRC or cypress (yellow cedar) on the BC Coast and exported within 3,000 miles of BC to be fully manufactured to be eligible for export or be subject to export tax. Fully manufactured is defined as timber that will not be kiln-dried, planed or re-sawn at a facility outside of BC.
- On September 11, 2020, the Province announced an immediate deferral of harvest of old forests in 352,739 hectares of Crown land in BC, and a new Special Tree Regulation. Of Western's 1.7 million hectares of Crown tenured land base, an area of 3,300 hectares was included in the September 2020 proposed temporary deferrals. The new Special Tree Regulation had no impact to Western given our ongoing commitment to protecting big trees.
- In October 2020, the BC New Democratic Party were re-elected and made statements that they would implement all fourteen recommendations of the Report through a phased approach over a three year period.
- On December 15, 2020, the Province announced the application of a targeted variable fee-in-lieu of manufacturing for raw log exports harvested from cutting permits on the BC Coast.
- In March 2021, the Province announced the pending release of an Intentions Paper that included, amongst other things, the intent to diversify the BC forest sector, partially redistribute tenure and compensate existing tenure holders on a fair basis.
- In June 2021, the Intentions Paper was released. Titled "Modernizing BC's Forest Sector", it contained a vision and principles related to First Nations reconciliation, diversification, sustainability and stewardship amongst other things.
- On November 2, 2021, the Province announced proposed incremental, temporary harvest deferrals as recommended through its TAP, subject to engagement with and agreement from First Nations. Across BC, an incremental 2.6 million hectares classified as old growth forest were identified for deferrals. The thirty-day response period initially provided to First Nations has been extended.

- On November 16, 2021, the Province introduced Bill 28, Forest Amendment Act, 2021, which is considered enabling legislation for the redistribution of harvest rights and, subject to further regulation, includes changes to how tenure holders may be compensated under the Forest Act for tenures. Included in the amendments arising from this Bill were requirements for area-based tenure holders to maintain and provide forest inventories, and certain log export administrative changes.
- On November 25, 2021, the Province's Bill 23, Forests Statutes Amendment Act, 2021, amendment to the Forest and Range Practices Act received Royal Assent bringing into legislation forest planning and related changes including the replacement of Forest Stewardship Plans approved by Forest Districts with Forest Landscape Plans which are to be established by the Provincial Chief Forester.
- The 'Namgis First Nation and Western continue their work on the TFL 37 Forest Landscape Plan Pilot, supported by the Province through the Office of the Chief Forester. The pilot and recommendations are anticipated to inform amendments to the Forest and Range Practices Act and associated Regulations and is targeted for completion late 2022 or early 2023. Western cannot determine the impact these recommendations will have on its business.
- On January 25, 2022, the Province announced that it is developing BC's first Watershed Security Strategy and Fund, with details outlined in its published Discussion Paper: Watershed Security Strategy and Fund, including a commitment to develop and implement it with Indigenous peoples and in collaboration with local and federal governments. This initiative has an estimated target of spring/summer 2023 for launch of the Watershed Security Strategy.
- On February 15, 2023, the Province announced the planned completion of the Old Growth Strategic Action Plan by the end of 2023, to be developed in consultation with First Nations and stakeholders.

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

Substantially all of the timberlands in BC in which we operate are owned by the Province and administered by the MFLNRO. The Forest Act (British Columbia) (the "Forest Act") empowers the MFLNRO to grant timber tenures, including Tree Farm Licences ("TFLs"), Forest Licences ("FLs") and Timber Licences ("TLs"), to producers, although no new TLs can be issued and the availability of extensions to expiring TLs is not assured. The Provincial Chief Forester must conduct a review of the AAC for each Timber Supply Area and each TFL in the Province on a periodic basis, at least once every ten years. This review is then used to determine the AAC for licences issued by the Province under the Forest Act. Many factors affect the AAC such as timber inventory, the amount of operable forest land, growth estimates of young forests, regulation changes and environmental and social changes. Such assessments have in the past resulted and may in the future result in reductions or increases to the AAC attributable to licences held by BC forest companies (without compensation), including the licences that we hold.

TFLs and FLs held by the Company have cut control periods, which are generally five years. Under the Forest Act, if the volume of timber harvested during a cut control period is less than the total AAC for the TFL or FL in that period, the licence holder loses the right to harvest the unharvested volume in any subsequent period. Furthermore, for TFLs such unharvested volume can be allocated to third parties. The Company may not harvest its full AAC during a cut control period due to, among other things, market conditions, labour disputes, labour and contractor shortages, permitting delays, severe weather conditions, and changes in government policy. We are unable to predict the potential impact of an uncut decision.

In addition, our AAC can be temporarily reduced (without compensation for the first four years) in areas where logging has been suspended under Part 13 of the Forest Act pending government decisions regarding the public interest in designated areas.

Land use planning, including critical habitat designations, stand age restrictions, as well as new harvesting regulations, can constrain access to timber and new parks can permanently remove land from the timber harvesting land base. There can be no assurance that the amounts of such future reductions on our licences, if any, will not be material or the amounts of compensation, if any, for such reductions will be fair and adequate.

Our fibre supply requirements in the US are currently met from a broad range of sources, including Federal and State lands, from private landowners and open market purchases, which are subject to log availability and based on market prices.

Changes in the log markets in which we operate, including the price, quality or availability of log supply, may increase the costs of log purchases which could adversely affect our results. In addition, weather-related issues can restrict timely access to log supply.

Stumpage Fees

Stumpage is the fee that the Province charges forest companies for timber harvested from Crown land in BC. Approximately 95% of the timber we harvest is from Crown land. Stumpage is set using the Coast version of the Market Pricing System ("MPS"). MPS uses the winning bids and stand characteristics of timber sold through British Columbia Timber Sales ("BCTS") auctions to develop regression equations that predict the market, or auction value of Crown timber harvested under long-term tenures. The auction value is then adjusted to reflect costs that tenure holders incur that auction bidders do not incur as BCTS covers these costs. These costs, referred to as 'Tenure Obligation Adjustments', typically include road development, road maintenance, forest planning and administration, and silviculture. There are also other harvesting costs, or 'Specified Operations', that are not represented in the auction dataset that are also deducted from the auction value. These 'Specified Operations' costs include Tree Crown Modification, Barging, Ecosystem-Based Management, and Inland Water Transportation. The Coastal MPS equations are updated yearly to reflect recent sale data and costs. The most recent update occurred on January 1, 2023. Stumpage rates are also adjusted quarterly to reflect changes in inflation and market variables including lumber prices, housing starts in Canada, the US, and Japan, and BC Coast harvest levels.

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

Land Claims by Indigenous Groups

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

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

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

On April 1, 2011, the first modern treaty affecting the Company's tenures was brought into force. The Maa-nulth First Nations Treaty extinguished the Company's tenure rights on Maa-nulth Treaty Settlement Lands and a new Protected Area within TFL 44, and permanently reduced the tenure's AAC by 104,000 cubic metres. Following discussions with the Province on the magnitude of the treaty impacts on AAC, soft cost investments and downstream business, on October 21, 2016, the Company announced that the Province had agreed to compensate Western in the amount of $14.0 million for the partial tenure extinguishment.

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

- In January 2017, the Nuchatlaht First Nation filed a Notice of Civil Claim against Canada, the Province and the Company, seeking a declaration of Aboriginal title to a claim area that encompasses the northern half of Nootka Island and a declaration that the Forest Act and Park Act are no longer applicable to the claim area. The claim area encompasses a portion of the harvesting area of the Company's Forest Licence A19231 and certain timber licences also held by the Company. In April 2022, shortly after the trial began, Nuchatlaht filed a Notice of Discontinuance, ending the proceedings against Western. Final arguments in the trial were presented in Fall 2022, and a decision by the Court is pending.
- In May 2018, the Dzawada'enuxw First Nation filed a Notice of Civil Claim against, among others, Canada, the Province, and the Company. The Dzawada'enuxw First Nation, located at Kingcome Inlet on the mainland coast, is seeking a declaration of Aboriginal title over an area that includes a portion of two of Western timber licenses and TFL 39 (Block 3) and a declaration that the *Forest Act* and *Park Act* are no longer applicable to the claim area. Responses by the defendants to the Notice of Civil Claim have not yet been filed.

Government-to-government negotiation processes involving several First Nations, with territories that Western's operating areas overlap, are well advanced and may lead to agreements impacting the Company in 2023. It is expected that through these processes, the Province may seek to remove areas from the Company's forest tenures or amend existing permitting processes to incorporate shared decision making contemplated by the *Declaration on the Rights of Indigenous Peoples Act* ("*DRIPA"*).

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

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

International Business and Risks of Exchange Rate Fluctuations

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

- fluctuations in foreign currencies;
- changes in the economic strength of the countries in which we conduct business;
- trade disputes, tariffs and other barriers;
- changes in regulatory requirements;

- quotas, duties, taxes and other charges or restrictions upon exports or imports;
- transportation costs and the availability of carriers of any kind including those by land or sea; and
- strikes or labour disputes in the transportation industry or related dock or container service industries.

Depending on product mix, destination and exchange rates, generally between 45% and 55% of our total product sales are denominated in USD and between 1% and 5% in JPY, while most operating costs and expenses are incurred in CAD, with small portions in USD and JPY. The Company's functional currency is the CAD and financial results are reported in CAD. Significant variations in relative currency values, particularly significant changes in the value of the CAD relative to the USD, have had, and in the future could have, a material impact on our operating earnings and cash flows. We estimate that an increase or decrease of 1% in the value of the CAD compared to the USD and JPY would decrease or increase annual operating earnings, under normal operating conditions, by approximately $4.8 million, and $0.2 million, respectively.

Long-Term Competition

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

Variable Operating Performance, Product Pricing and Demand Levels

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

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

Product demand is influenced to a significant degree by economic activity at the global level. Additionally, although costs may increase, customers may not accept related price increases for those products. We are not able to predict with certainty market conditions and prices for our products. Western's results of operations depend upon the prices we receive for lumber, logs and chips, and deterioration in prices of, or demand for, these products could have a material adverse effect on our financial condition or results of operations. We cannot provide any assurance or prediction as to the timing and extent of any price changes. On an annualized basis, with active operations, and based on current operating metrics, we estimate that operating earnings would increase or decrease by approximately $7 million for each incremental price increase or decrease, respectively, of $10 per thousand board feet of lumber.

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

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

Pulp and Paper Market Variability

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

Reliance on Management and Other Key Personnel

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

Information Technology Security

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

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

Environmental Regulation

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

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

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

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

Softwood Lumber Dispute

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

The twelve-month standstill period of the SLA, which precluded the US from bringing trade action against Canadian softwood lumber producers, expired October 12, 2016. On November 25, 2016, the US Lumber Coalition petitioned the DoC and the US International Trade Commission ("ITC") seeking CV and AD on Canadian softwood lumber shipments to the US. On January 6, 2017, the ITC concluded that there was "reasonable indication" that softwood lumber products from Canada materially injured US producers; and, as a result, the DoC imposed duties on Canadian shipments of softwood lumber into the U.S.

From 2017 onward, as a result of petitions filed by the US Lumber Coalition, and others, and determinations made by the ITC, the DoC imposed CV and 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.

As cash deposit rates exceeded final duty rates for lumber shipments made in 2017 through 2020, the Company recognized a long-term interest-bearing duty receivable totalling USD$43.0 million (CAD$56.4 million), of which USD$13.4 million (CAD$18.0 million) was recognized as an export tax recovery in 2022. This recovery was netted against export tax expense of $38.9 million, resulting in a net export tax of $20.9 million.

On December 1, 2022, the DoC and ITC 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 ITC 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. Final results are expected in late 2023 or early 2024.

On January 24, 2023, the DoC released its preliminary determination for CV and AD rates resulting from its fourth administrative review of CV and AD rates for shipments in 2021. The DoC may revise these rates between the preliminary and the final determination, expected to be released in the third quarter of 2023. Cash deposits continue at the combined duty rate of 8.59% until the final determinations are published, after which the 2021 rate will apply.

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 2020 and preliminary rates for 2021:

Administrative review				AR4	AR3	AR2	AR1	AR1
Lumber shipment date	Aug. 9, 2022 through Dec. 31, 2022	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	2018	2017
Cash deposit rate, CV	3.83%	6.32%	6.31%	7.42%	14.19%	14.19%	14.19%	14.19%
Cash deposit rate, AD	4.76%	11.59%	11.59%	1.57%	6.04%	6.04%	6.04%	6.04%
Cash deposit rate, combined	8.59%	17.91%	17.90%	8.99%	20.23%	20.23%	20.23%	20.23%

	2021 Preliminary	2020 Final	2019 Final	2018 Final	2017 Final
Duty rate, CV	2.19%	3.83%	6.32%	7.42%	7.26%
Duty rate, AD	6.05%	4.76%	11.59%	1.57%	1.57%
Duty rate, combined	8.24%	8.59%	17.91%	8.99%	8.83%

At December 31, 2022, including interest of USD$4.0 million (2021: USD$2.3 million), the duty receivable of USD$47.0 million (2021: USD$31.9 million) was revalued at the year-end exchange rate to CAD$63.7 million (2021: CAD$40.4 million).

As at December 31, 2022, the Company had paid $203.0 million of duties, all of which remain held in trust by US Department of Treasury (2021: $151.8 million). With the exception of USD$43.0 million (CAD$58.3 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.

This dispute may have an adverse impact on our financial condition and could also result in increased costs resulting from the administrative burden of such proceedings. The Canadian Federal Government is appealing the U.S. findings and, as in previous trade cases, the softwood lumber dispute may take years to resolve through the legal process and remains open to a negotiated settlement at any time. Based on the foregoing, it is unclear at this time when any duty amounts paid will be recovered or if amounts paid in excess of the amended final rates will be refunded.

Employees and Labour Relations

Hourly paid employees at our Canadian manufacturing facilities and timber harvesting operations are unionized. The majority of the unionized employees are represented by the USW. Approximately 1,092 Western employees represented by the USW are covered by a five-year collective agreement that was renewed in February 2020 and expires in June 2024. The Public and Private Workers of Canada (“PPWC”) represents the remaining unionized employees. PPWC members of our Ladysmith Sawmill are covered by an eight-year collective agreement that was ratified in February 2021 and expires in December 2028. The PPWC also represents the unionized employees at our Value-Added Remanufacturing operation with whom we have a collective agreement that runs through October 2029.

Should the Company be unable to negotiate an acceptable contract after any of these collective agreements expire with any of the unions, a strike or lockout could occur. A strike or lockout could involve significant disruption of operations, may affect our ability to meet the immediate needs of our customers, or could have an adverse material impact on our financial condition. Furthermore, a negotiated settlement could result in unplanned increases in wages or benefits payable to unionized employees. In addition, the Company relies on certain third parties, such as logging contractors, stevedores, trucking companies and railways, whose workforces are unionized, to provide the Company with services necessary to operate the business. If those workers/employers engage in a strike or lockout, our operations could be disrupted.

Public Health Crisis

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

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

The full extent of the impact of the COVID-19 pandemic on the Company will depend on many factors that, given the ongoing and dynamic nature of COVID-19, are highly uncertain and cannot be predicted. These factors include, without limitation, the duration and severity of the pandemic, further measures, restrictions and actions taken to contain the pandemic, availability, effectiveness and efficacy duration of vaccines, mutation of the virus or new information that may emerge concerning the spread and severity of COVID-19.

Forest Resource Risk, Natural Catastrophes and Climate Change

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

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

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

Climate change over time is predicted to lead to changes in the frequency of storm events as well as their severity. In the summer of 2021, BC and the US Pacific Northwest experienced extreme heat and an extended fire season, followed by flooding resulting from significant rainfall in November 2021. This weather caused significant operational and logistics disruptions impacting the ability to harvest timber and transport products.

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

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

Transportation

The Company depends on third parties for transportation of its products and raw materials to and from its production facilities and to domestic and export markets. These third-party transportation providers include tug and barge operators, truckers, bulk and container shippers and railways. Our ability to obtain transportation services from providers is subject to risks which include availability of equipment and operators; availability of shipping containers; disruptions due to weather, natural disasters, labour disputes or civil unrest; reductions or delays due to seasonal factors; frequency and severity of weather events which damage transportation infrastructure; and the ability of transportation providers to repair damage from severe weather events on a timely basis.

If any of our third-party transportation providers were to fail to deliver the raw materials or distribute our products in a timely manner, Western may be unable to manufacture its products in response to customer demand or sell those products at full value, which could have a material adverse effect on our financial condition and operating results.

Transportation costs are also subject to risks that include, without limitation, increased rates due to competition, increased fuel costs, increased labour costs and increased capital expenditures related to repair, maintenance and upgrading of transportation infrastructure. Increases in transportation costs will increase our operating costs and adversely impact our profitability. If we are unable to obtain transportation services or if our transportation costs increase, our revenues may decrease due to our inability to deliver products to market and our operating expenses may increase, each of which would adversely affect our results of operations.

Safety

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

Long-term Fibre Supply Agreements

The Company has a number of long-term commitments to supply chip fibre, saw logs and pulp logs to third parties. Certain of these fibre supply agreements have minimum volume requirements. A failure to supply the minimum volumes may result in additional costs or deferred obligations. If the Company is unable to produce the minimum volume, we may need to conduct whole log chipping, sell saw logs, purchase chips or pulp logs or incur a penalty under these fibre supply agreements.

Continuation of the Dividend Program

Any decision to declare and pay dividends in the future will be made at the discretion of our Board of Directors, after taking into account our operating results, financial condition, cash requirements, financing agreement restrictions and other factors our Board may deem relevant. We may be unable or may elect not to continue to declare and pay dividends, even if necessary financial conditions are met and sufficient cash is available for distribution.

Impact of Mountain Pine Beetle and Spruce Beetle Infestation

The interior forests of BC have been seriously damaged by the mountain pine beetle. Over the past few years there has also been a growing concern with the spruce beetle which is also killing live trees. Western does not operate in the affected areas and lodgepole pine, the species most at risk from the infestation, is not a key source of timber in the coastal forests. While coastal forests do contain Sitka spruce, large scale spruce beetle infestations killing live trees are concentrated in the interior of BC and are not a source of timber for Western. The impacts on the mountain pine beetle affect the demand and supply of lumber products in BC and the Company is unable to predict when or if the mountain pine beetle infestation will be halted or its impact on future prices for its products.

Evaluation of Disclosure Controls and Procedures

As required by National Instrument 52-109, *Certification of Disclosure in Issuers' Annual and Interim Filings*, Western conducted an evaluation of the effectiveness of the disclosure controls and procedures and the system of internal control over financial reporting based on the "Internal Control – Integrated Framework" issued by the Committee of Sponsoring Organizations of the Treadway Commission. Based on this evaluation, management concluded that the Company's system of internal control over financial reporting was effective as at December 31, 2022.

The evaluation was carried out under the supervision and with the participation of the CEO and the Chief Financial Officer ("CFO"). Based on the evaluation, Western's CEO and CFO concluded that the Company's disclosure controls and procedures are effective in providing reasonable assurance that material information relating to Western and its consolidated subsidiaries is made known to them by others within those entities, particularly during the period in which the annual filings are being prepared. In addition, Western's CEO and CFO concluded that the Company's internal controls over financial reporting are effective in providing reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for Western and its consolidated subsidiaries for the period in which the annual filings are being prepared.

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

Despite the changes required by the current environment, the CEO and CFO confirm that there have been no changes or material weaknesses in the design or operating effectiveness of the Company's internal controls over financial reporting that have materially affected, or are reasonably likely to materially affect, the Company's internal controls over financial reporting during the year ended December 31, 2022.

Outstanding Share Data

As of February 16, 2023, there were 316,742,746 Common Shares of the Company issued and outstanding.

We have reserved 30,000,000 of our Shares for issuance upon the exercise of options granted under our incentive stock option plan. During the year ended December 31, 2022, 500,000 were granted, 250,000 options were exercised for a total of 108,585 shares issued, and 363,847 options were forfeited. As of February 16, 2023, 14,049,450 options were outstanding under our incentive stock option plan.

Additional Information

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

Appendix A – Summary of Selected Results of the Last Eight Quarters

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

		2022	2022				2021	2021			
		2022	**Q4**	**Q3**	**Q2**	**Q1**	**2021**	**Q4**	**Q3**	**Q2**	**Q1**
Avg. exchange rate – USD to CAD		**1.302**	1.358	1.305	1.276	1.267	**1.253**	1.260	1.260	1.228	1.265
Avg. exchange rate – CAD to USD		**0.768**	0.737	0.766	0.783	0.789	**0.798**	0.794	0.794	0.814	0.790
Financial performance											
Revenue											
Lumber		**$1,152.5**	$ 219.7	$ 267.1	$ 351.8	$ 313.9	**$1,197.5**	$ 268.0	$ 299.8	$ 353.1	$ 276.6
Logs		**230.9**	54.9	72.5	70.8	32.7	**169.3**	48.9	41.0	46.3	33.1
By-products		**60.6**	16.4	16.4	14.8	13.0	**50.9**	11.0	12.1	15.0	12.8
Total revenue		**$1,444.0**	$ 291.0	$ 356.0	$ 437.4	$ 359.6	**$1,417.7**	$ 327.9	$ 352.9	$ 414.4	$ 322.5
Adjusted EBITDA		**$ 136.9**	$ (11.9)	$ 17.3	$ 66.2	$ 65.4	**$ 302.1**	$ 52.5	$ 66.3	$ 120.4	$ 62.9
Adjusted EBITDA margin		**9%**	(4%)	5%	15%	18%	**21%**	16%	19%	29%	20%
Net income (loss)		**$ 61.8**	$ (21.4)	$ 6.6	$ 38.6	$ 38.0	**$ 202.8**	$ 28.5	$ 42.2	$ 78.3	$ 53.8
Earnings (loss) per share											
Basic		**$ 0.19**	$ (0.07)	$ 0.02	$ 0.12	$ 0.12	**$ 0.56**	$ 0.08	$ 0.12	$ 0.21	$ 0.14
Diluted		**$ 0.19**	$ (0.07)	$ 0.02	$ 0.12	$ 0.11	**$ 0.56**	$ 0.08	$ 0.12	$ 0.21	$ 0.14
Operating Statistics											
Lumber (1)											
Production	mmfbm	**655**	139	169	173	175	**760**	179	175	207	199
Shipments	mmfbm	**716**	155	179	197	186	**782**	164	193	221	204
Price	$/mfbm	**$ 1,609**	$ 1,420	$ 1,495	$ 1,786	$ 1,688	**$ 1,531**	$ 1,634	$ 1,553	$ 1,598	$ 1,356
Logs (2)											
Net production	000 m^3	**3,110**	658	800	904	748	**3,090**	700	690	1,012	688
Saw log purchases	000 m^3	**1,093**	173	302	328	290	**861**	211	227	227	195
Log availability	000 m^3	**4,202**	831	1,102	1,232	1,038	**3,950**	911	917	1,239	883
Shipments	000 m^3	**1,329**	367	404	391	167	**1,340**	378	325	351	284
Price (3)	$/$m^3$	**$ 161**	$ 142	$ 172	$ 166	$ 163	**$ 119**	$ 117	$ 120	$ 127	$ 110
Share Repurchases and Dividends											
Shares repurchased	# millions	**12.1**	2.2	6.5	-	3.4	**47.7**	17.4	14.6	14.4	1.3
Shares repurchased	$ millions	**$ 20.3**	$ 3.0	$ 10.0	$ -	$ 7.3	**$ 96.9**	$ 34.5	$ 30.2	$ 29.9	$ 2.3
Dividends paid	$ millions	**$ 15.3**	$ 3.9	$ 4.1	$ 4.0	$ 3.3	**$ 14.3**	$ 3.3	$ 3.6	$ 3.6	$ 3.8
Non-GAAP Measures											
Adjusted EBITDA											
Net income (loss)		**$ 61.8**	$ (21.4)	$ 6.6	$ 38.6	$ 38.0	**$ 202.8**	$ 28.5	$ 42.2	$ 78.3	$ 53.8
Add:											
Amortization		**50.2**	12.0	12.7	12.8	12.7	**50.9**	12.7	12.0	13.3	12.9
Changes in fair value of biological assets		**0.1**	(0.2)	(0.2)	-	0.5	**3.7**	0.2	0.8	1.5	1.2
Operating restructuring items		**4.5**	3.9	(0.2)	0.2	0.6	**2.7**	0.8	0.9	0.5	0.5
Other (income) expense		**(2.1)**	2.0	(4.0)	(0.2)	0.1	**(22.4)**	(0.3)	(4.0)	(1.4)	(16.7)
Finance (income) costs		**(0.1)**	(0.1)	(0.7)	0.3	0.4	**1.9**	0.2	0.4	0.4	0.9
Current income tax (recovery)		**12.5**	(14.4)	(3.4)	14.9	15.4	**64.1**	10.5	13.6	31.2	8.8
Deferred income tax (recovery)		**10.1**	6.4	6.4	(0.4)	(2.3)	**(1.7)**	(0.3)	0.4	(3.3)	1.5
Adjusted EBITDA		**$ 136.9**	$ (11.9)	$ 17.3	$ 66.2	$ 65.4	**$ 302.1**	$ 52.5	$ 66.3	$ 120.4	$ 62.9
Divided by total revenue		**$1,444.0**	$ 291.0	356.0	437.4	359.6	**$1,417.7**	$ 327.9	$ 352.9	$ 414.4	$ 322.5
Adjusted EBITDA Margin		**9%**	(4%)	5%	15%	18%	**21%**	16%	19%	29%	20%

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

(1) "mmfbm" = millions of board feet; "mfbm" = thousands of board feet.
(2) Coastal BC business only. Net production is sorted log production, net of residuals and waste. Log availability is net production plus saw log purchases.
(3) The average realized log price per cubic metre has been presented on a gross basis, which may include fee-in-lieu and shipping charges incurred on behalf 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 third quarter as it builds log inventory during optimal harvest conditions and builds lumber inventory in advance of seasonally high lumber demand.

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

Log production in the second half of 2021 was affected by the prolonged weather-related curtailment of logging operations, and snowpack in early 2022 impacted harvest volumes. In late 2022, certain BC manufacturing facilities were curtailed and log production was lowered to match usage in our manufacturing facilities.

CONSOLIDATED FINANCIAL STATEMENTS

MANAGEMENT’S RESPONSIBILITY FOR FINANCIAL STATEMENTS

The Management of Western Forest Products Inc. (“Western” or the “Company”) is responsible for the accompanying Consolidated Financial Statements and all other information in the Management’s Discussion and Analysis. The Consolidated Financial Statements have been prepared by Management in accordance with International Financial Reporting Standards as issued by the International Accounting Standards Board and, where necessary, reflect Management’s best estimates and judgements at this time. The financial information presented throughout the Management’s Discussion and Analysis dated February 16, 2023, is consistent with that contained in the Consolidated Financial Statements.

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

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

The Consolidated Financial Statements have been audited by KPMG LLP, who were appointed by the shareholders at the annual shareholders’ meeting. The Auditors’ Report follows.

“Steven Hofer”

Steven Hofer
President & Chief Executive Officer

“Stephen Williams”

Stephen Williams
Executive Vice President & Chief Financial Officer

February 16, 2023

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INDEPENDENT AUDITOR'S REPORT

To the Shareholders of Western Forest Products Inc.

Opinion

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

- the consolidated statements of financial position as at December 31, 2022 and December 31, 2021
- the consolidated statements of comprehensive income for the years then ended
- the consolidated statements of changes in equity for the years then ended
- the consolidated statements of cash flows for the years then ended
- and notes to the consolidated financial statements, including a summary of significant accounting policies

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

In our opinion, the accompanying financial statements present fairly, in all material respects, the consolidated financial position of the Entity as at December 31, 2022 and December 31, 2021, and its consolidated financial performance and its consolidated cash flows for the years then ended in accordance with International Financial Reporting Standards (IFRS) as issued by the International Accounting Standards Board (IASB).

Basis for Opinion

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

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

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

Key Audit Matters

Key audit matters are those matters that, in our professional judgment, were of most significance in our audit of the financial statements for the year ended December 31, 2022. These matters were addressed in the context of our audit of the financial statements as a whole, and in forming our opinion thereon, and we do not provide a separate opinion on these matters.

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

Assessment of log and lumber inventory net carrying value

Description of the matter

We draw attention to Note 5 to the consolidated financial statements. The inventory net carrying value is $224.8 million, of which $202.1 million relates to log and lumber inventory. The Entity records inventory at the lower of cost and net realizable value. The determination of cost involves the use of complex models. The Entity determines the cost of lumber inventory using the average cost of production based on the species and facility where they were produced and the cost of log inventory by end sort using the average cost of production by operation based on the operational area in which the logs were produced. Net realizable value is the estimated selling price in the ordinary course of business, less estimated costs of completion and selling expenses.

Why the matter is a key audit matter

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

How the matter was addressed in the audit

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

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

Evaluation of the fair value of biological assets

Description of the matter

We draw attention to Note 8 to the financial statements. The carrying value of biological assets at December 31, 2022 is $49.1 million. Standing timber on privately held forest land managed for timber production is characterized as a biological asset. A biological asset is valued at its fair value less cost to sell, with any change therein, including the impact of growth and harvest, recognized in net income. Significant assumptions in determining the fair value of biological assets include future log prices per cubic metre, harvest costs per cubic metre, harvest annual volume and risk-adjusted discount rate.

Why the matter is a key audit matter

We identified the evaluation of the fair value of biological assets as a key audit matter. This matter represented an area of significant risk of material misstatement given the magnitude of biological assets and the high degree of estimation uncertainty in determining the fair value of biological assets. In addition, significant auditor judgment and specialized skills and knowledge were required to evaluate the Entity's significant assumptions and the results of our audit procedures.

How the matter was addressed in the audit

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

- We compared the estimated future log prices per cubic metre log price assumptions used by management to actual sales prices for sales made subsequent to year end.
- We evaluated the competence and capabilities of the Entity's registered professional foresters by:
    - Inspecting evidence that the registered professional foresters are in good standing with their professional institute.
    - Considering whether the registered professional foresters have the appropriate knowledge in relation to the volume and composition of standing timber and the determination of estimated harvest annual volumes.
- We evaluated the Entity's estimated harvest annual volumes by comparing to the Entity's inventory of standing timber and the historical harvest volumes from its private timberlands.
- We compared the estimated harvest costs per cubic metre to actual historical costs incurred by the Entity. We took into account changes in conditions and events affecting the biological assets to assess the adjustments, or lack of adjustments, made by the Entity in arriving at the harvest costs per m3 to be incurred in developing the biological assets.

We involved valuations professionals with specialized skills and knowledge, who assisted in evaluating the discount rate used by comparing it against a discount rate range that was independently developed using publicly available benchmark data for comparable entities.

Other Information

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

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

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

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

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

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

We have nothing to report in this regard.

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

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

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

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

Auditor's Responsibilities for the Audit of the Financial Statements

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

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

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

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

We also:

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

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

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

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

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

- Communicate with those charged with governance regarding, among other matters, the planned scope and timing of the audit and significant audit findings, including any significant deficiencies in internal control that we identify during our audit.
- Provide those charged with governance with a statement that we have complied with relevant ethical requirements regarding independence and communicate with them all relationships and other matters that may reasonably be thought to bear on our independence, and where applicable, related safeguards.
- Determine, from the matters communicated with those charged with governance, those matters that were of most significance in the audit of the financial statements of the current period and are therefore the key audit matters. We describe these matters in our auditor's report unless law or regulation precludes public disclosure about the matter or when, in extremely rare circumstances, we determine that a matter should not be communicated in our auditor's report because the adverse consequences of doing so would reasonably be expected to outweigh the public interest benefits of such communication.

KPMG LLP

Chartered Professional Accountants

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

Vancouver, Canada
February 16, 2023

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

	December 31 2022	December 31 2021
Assets		
Current assets:		
Cash and cash equivalents	$ 15.8	$ 130.0
Trade and other receivables	60.0	57.4
Inventory (Note 5)	224.8	207.2
Prepaid expenses and other assets	21.8	16.4
Income taxes receivable (Note 12)	17.4	-
	339.8	411.0
Non-current assets:		
Property, plant and equipment (Note 6)	364.7	343.2
Timber licenses (Note 7)	96.3	100.3
Biological assets (Note 8)	49.1	49.1
Other assets (Note 9)	75.7	55.2
Deferred income tax assets (Note 12)	0.2	0.2
Goodwill (Note 4)	7.0	-
	$ 932.8	$ 959.0
Liabilities and Equity		
Current liabilities:		
Accounts payable and accrued liabilities	$ 108.5	$ 112.8
Income taxes payable (Note 12)	0.2	64.1
Current portion of lease liabilities (Note 11)	6.8	5.5
Reforestation obligation (Note 14)	8.3	9.9
Deferred revenue (Notes 19, 26)	2.0	2.0
	125.8	194.3
Non-current liabilities:		
Lease liabilities (Note 11)	16.4	12.8
Reforestation obligation (Note 14)	13.8	12.5
Deferred income tax liabilities (Note 12)	65.2	53.7
Other liabilities (Note 13)	15.4	22.0
Deferred revenue (Notes 19, 26)	44.5	46.5
	281.1	341.8
Equity:		
Share capital (Note 15)	405.4	420.8
Contributed surplus	9.1	9.0
Translation reserve	3.6	(2.2)
Retained earnings	229.1	184.5
Total equity attributable to equity shareholders of the Company	647.2	612.1
Non-controlling interest (Note 29)	4.5	5.1
	651.7	617.2
	$ 932.8	$ 959.0

Commitments and contingencies (Notes 19, 20)
Subsequent event (Note 30)
See accompanying notes to these consolidated financial statements.

Approved on behalf of the Board:

"Daniel Nocente"
Chair

"Steven Hofer"
President & Chief Executive Officer

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

	Year ended December 31,	
	2022	2021
Revenue (Note 26)	$ 1,444.0	$ 1,417.7
Costs and expenses:		
Cost of goods sold	1,189.5	992.2
Freight	102.4	93.8
Export tax (Note 19)	20.9	26.5
Selling and administration	44.5	57.8
	1,357.3	1,170.3
Operating income prior to restructuring and other items	86.7	247.4
Operating restructuring items (Note 24)	(4.5)	(2.7)
Other income (Note 22)	2.1	22.4
Operating income	84.3	267.1
Finance income (costs) (Note 23)	0.1	(1.9)
Income before income taxes	84.4	265.2
Income tax expense (recovery) (Note 12)		
Current	12.5	64.1
Deferred	10.1	(1.7)
	22.6	62.4
Net income	61.8	202.8
Net income attributable to equity shareholders of the Company	61.7	201.4
Net income attributable to non-controlling interest	0.1	1.4
	61.8	202.8
Other comprehensive income		
Items that will not be reclassified to profit or loss:		
Employee future benefits actuarial gain (Note 20)	4.2	4.0
Income tax expense (Note 12)	(1.1)	(1.1)
Total items that will not be reclassified to profit or loss	3.1	2.9
Items that may be reclassified subsequently to profit or loss:		
Foreign currency translation differences for foreign operations	5.8	(0.3)
Total comprehensive income	$ 70.7	$ 205.4
Earnings per share (in dollars) (Note 17)		
Basic and diluted	$ 0.19	$ 0.56

See accompanying notes to these consolidated financial statements.

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

	Share Capital	Contributed Surplus	Translation Reserve	Retained Earnings	Non-controlling Interest	Total Equity
Balance at December 31, 2020	$ 479.9	$ 10.4	$ (1.9)	$ 16.1	$ 1.1	$ 505.6
Net income	-	-	-	201.4	1.4	202.8
Other comprehensive income (loss):						
Employee future benefits actuarial gain	-	-	-	4.0	-	4.0
Income tax expense on actuarial gain	-	-	-	(1.1)	-	(1.1)
Foreign currency translation differences for foreign operations	-	-	(0.3)	-	-	(0.3)
Total comprehensive income (loss)	-	-	(0.3)	204.3	1.4	205.4
Stock options recognized in equity (Note 16(a))	-	0.5	-	-	-	0.5
Exercise of stock options (Notes 16(a))	1.9	(1.9)	-	(1.0)	-	(1.0)
Repurchase of shares (Note 15)	(61.0)	-	-	(35.9)	-	(96.9)
Dividends	-	-	-	(14.3)	-	(14.3)
Non-controlling interest (Note 29)	-	-	-	15.3	4.0	19.3
Distributions to non-controlling interest (Note 29)	-	-	-	-	(1.4)	(1.4)
Total transactions with owners, recorded directly in equity	(59.1)	(1.4)	-	(35.9)	2.6	(93.8)
Balance at December 31, 2021	420.8	9.0	(2.2)	184.5	5.1	617.2
Net income	-	-	-	61.7	0.1	61.8
Other comprehensive income (loss):						
Employee future benefits actuarial gain	-	-	-	4.2	-	4.2
Income tax expense on actuarial gain	-	-	-	(1.1)	-	(1.1)
Foreign currency translation differences for foreign operations	-	-	5.8	-	-	5.8
Total comprehensive income (loss)	-	-	5.8	64.8	0.1	70.7
Stock options, net of forfeitures, recognized in equity (Note 16(a))	-	0.2	-	-	-	0.2
Exercise of stock options (Notes 16(a))	0.1	(0.1)	-	(0.1)	-	(0.1)
Repurchase of shares (Note 15)	(15.5)	-	-	(4.8)	-	(20.3)
Dividends	-	-	-	(15.3)	-	(15.3)
Distributions to non-controlling interest (Note 29)	-	-	-	-	(0.7)	(0.7)
Total transactions with owners, recorded directly in equity	(15.4)	0.1	-	(20.2)	(0.7)	(36.2)
Balance at December 31, 2022	$ 405.4	$ 9.1	$ 3.6	$ 229.1	$ 4.5	$ 651.7

See accompanying notes to these consolidated financial statements.

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

	Year ended December 31,	
	2022	2021
Cash provided by (used in):		
Operating activities		
Net income	$ 61.8	$ 202.8
Items not involving cash:		
Amortization of property, plant and equipment (Note 6)	46.2	46.9
Amortization of timber licenses (Note 7)	4.0	4.0
Gain on disposal of property, plant, equipment and other assets (Notes 6, 7, 8)	(0.6)	(23.3)
Amortization of deferred revenue	(2.0)	(1.9)
Finance (income) costs (Note 23)	(0.1)	1.9
Income tax expense (Note 12)	22.6	62.4
Change in fair value of biological assets (Note 8)	0.1	3.7
Change in reforestation obligation (Note 14)	(0.7)	(0.2)
Share-based compensation, including mark-to-market adjustment (Note 16)	(1.8)	12.3
Change in employee future benefits obligation (Note 20)	(1.6)	(1.8)
Export tax receivable (Notes 9, 19)	(18.0)	(3.3)
Foreign exchange and other	(0.7)	1.2
Income taxes paid	(93.9)	-
	15.3	304.7
Changes in non-cash working capital items:		
Trade and other receivables	(1.0)	8.3
Inventory	(12.8)	(28.8)
Prepaid expenses and other assets	(5.0)	(0.4)
Accounts payable and accrued liabilities	(6.8)	(2.2)
	(25.6)	(23.1)
	(10.3)	281.6
Investing activities:		
Additions to property, plant and equipment (Note 6)	(44.3)	(31.9)
Proceeds from disposal of property, equipment and other	2.7	52.0
Acquisition of Calvert Company assets (Note 4)	(16.1)	-
Deposits on purchase of equipment	(2.2)	(1.2)
Proceeds on disposition of minority interest in subsidiary (Note 29)	-	19.8
	(59.9)	38.7
Financing activities:		
Interest paid	(0.5)	(0.9)
Repayment of credit facility (Note 10)	-	(70.2)
Repayment of bank indebtedness	-	(0.2)
Repayment of long-term equipment loan (Note 10)	-	(2.2)
Lease payments (Note 11)	(7.5)	(7.2)
Repurchase of shares (Note 15)	(20.3)	(96.9)
Proceeds from exercise of stock options (Note 16(a))	-	0.1
Dividends (Note 15)	(15.3)	(14.3)
Distributions to non-controlling interest (Note 29)	(0.4)	(1.4)
	(44.0)	(193.2)
Increase (decrease) in cash and cash equivalents	(114.2)	127.1
Cash and cash equivalents, beginning of year	130.0	2.9
Cash and cash equivalents, December 31	$ 15.8	$ 130.0

Supplementary information on non-cash transactions:

In addition to cash distributions paid to a non-controlling interest, $0.3 million of distributions were declared and settled by way of an offset to a receivable for the year ended December 31, 2022 (2021: $nil).

See accompanying notes to these consolidated financial statements.

1. Reporting entity

Western Forest Products Inc. ("Western" or the "Company") is an integrated softwood forest products company, incorporated and domiciled in Canada, operating primarily on the coast of British Columbia ("BC") and in Washington State, United States ("US"). The address of the Company's head office is Suite 800 – 1055 West Georgia Street, Vancouver, BC, Canada. The consolidated financial statements as at and for the years ended December 31, 2022 and 2021 comprise the financial results of the Company and its subsidiaries. The Company's primary business is the sale of lumber and logs, which includes timber harvesting, sawmilling logs into specialty lumber, value-added lumber 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

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

The consolidated financial statements were authorized for issue by the Board of Directors on February 16, 2023.

(b) Basis of measurement

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

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

(c) Functional and presentation currency

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

(d) Basis of consolidation

(i) Subsidiaries

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

The principal wholly-owned subsidiaries of the Company at December 31, 2022 are Western Lumber Sales Limited and Western Specialty Lumber Sales US LLC, which sell into the US, Western Forest Products Japan Ltd., which sells into Japan and WFP Partnerships Ltd., which holds assets of the US operation through indirect US subsidiaries, including the operating companies, Western Forest Products US LLC and WFP Engineered Products LLC.

2. Basis of preparation (continued)

(d) Basis of consolidation (continued)

(i) Subsidiaries (continued)

The Company sold a 28% interest in the TFL44 Limited Partnership ("TFL 44 LP") on May 3, 2021, decreasing its interest from 93% to 65%. Effective November 15, 2021, TFL 44 LP changed its name to Tsawak-qin Forestry Limited Partnership.

(ii) Interests in equity-accounted investees

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

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

(iii) Transactions eliminated on consolidation

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

(e) Foreign currency transactions

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

(f) Foreign operations

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

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

(g) Use of estimates and judgements

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

(i) Judgements

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

2. Basis of preparation (continued)

(g) Use of estimates and judgements (continued)

(ii) Assumptions and estimation uncertainties

Information about the use of management estimates and judgements and estimation uncertainties that have a significant effect on the amounts recognized in the consolidated financial statements is included in the following notes:

Note 4	Measurement of fair value of the identifiable assets acquired
Note 5	Measurement of net realizable value of inventories
Note 8	Measurement of fair value less costs to sell of standing timber
Note 11	Measurement of the present value of lease liabilities: key assumptions about the future lease payments and the discount rate used
Note 14	Measurement of the present value of reforestation obligations: key assumptions on the likelihood and quantum of outflow of resources
Note 16	Measurement of share-based payment transactions
Note 19	Recognition and measurement of provisions and contingencies: key assumptions about the likelihood and quantum of outflow of resources
Note 20	Measurement of defined benefit obligations: key actuarial assumptions and recognition of termination benefits

Measurement of fair values – certain accounting policies and disclosures require financial and non-financial assets and liabilities to be measured at fair value. Fair value measurements, including Level 3 fair values, are defined in an established framework with regular review of significant unobservable inputs and valuation adjustments. Management obtains third party information to measure fair values and assesses the resulting valuations to ensure they meet IFRS requirements, including the level in the fair value hierarchy in which such valuations would be classified. To the extent possible, Western uses market observable data to establish the fair value of a financial instrument. Refer to Note 21 for more details.

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

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

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

(h) Risks and uncertainties related to COVID-19

The Company is subject to risks and uncertainties as a result of the novel Coronavirus pandemic ("COVID-19"), an infectious disease outbreak that has had a significant impact on the global economy.

Although COVID-19 has had a far-reaching impact globally, it is not possible to isolate or accurately estimate its net impact on the Company's current and future business or net income. The Company continues to monitor and review the latest guidance from health officials and experts to ensure its protocols and Communicable Disease Prevention Plans meet the current required standards. The Company will continue to monitor and adjust its operations as required to ensure the health and safety of its employees, contractors and the communities where it operates and to address changes in customer demand.

3. Significant accounting policies

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

(a) Cash and cash equivalents

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

(b) Impairment of non-financial assets

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

For impairment testing, assets are grouped together at the lowest level for which there are separately identifiable cash inflows that are largely independent of the cash inflows from other assets or groups of assets (a cash generating unit "CGU"). The recoverable amount of a CGU is the greater of its value in use and its fair value less costs to sell. Value in use is based on the estimated future cash flows, discounted to their present value using a pre-tax discount rate that reflects current market assessments of time value of money and risks specific to the CGU.

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

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

(c) New standards and interpretations not yet adopted

Several new standards, and amendments to standards and interpretations, are not yet effective for the year ended December 31, 2022, and have not been applied in preparing these consolidated financial statements. None are currently considered by the Company to be significant or likely to have a material impact on future financial statements.

4. Acquisition

Accounting policy

Business combinations are accounted for using the acquisition method. The identifiable net assets acquired are measured at their fair value at the date of acquisition. Transaction costs, other than those associated with the issuance of debt or equity securities, are expensed as incurred.

The determination of fair value is estimated based on information available at the date of acquisition and requires management to make assumptions and estimates about future events. The assumptions and estimates with respect to determining the fair value of the acquired property, plant and equipment generally require the most judgment. Changes in any of these assumptions or estimates used in determining the fair value of acquired assets and liabilities could impact the amounts assigned to assets and liabilities in the acquisition equation.

The Company measures goodwill in business acquisitions at the acquisition date as the fair value of the consideration transferred including any non-controlling interest less the fair value of the identifiable assets acquired and liabilities assumed, all measured as of the acquisition date. When the excess is negative, a bargain purchase gain is recognized immediately in net income. Goodwill is measured at cost less accumulated impairment losses and is tested annually for impairment.

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

4. Acquisition (continued)

Supporting information

On August 31, 2022, Western completed the acquisition of certain assets of Calvert Company, Inc. ("Calvert"), an engineered wood products business located in Washington State, for consideration of USD$12.2 million, funded from cash on hand.

The acquisition has been accounted for as a business combination and the value of the consideration transferred is allocated on a preliminary basis as follows:

	USD	CAD
Cash purchase price	$ 12.2	$ 16.1
Assets acquired:		
Inventory	$ 2.7	$ 3.7
Equipment	4.3	5.6
Right of use assets	1.6	2.1
Goodwill	5.2	6.8
	13.8	18.2
Lease liabilities assumed	(1.6)	(2.1)
	$ 12.2	$ 16.1

Goodwill of $6.8 million is primarily attributable to Calvert's historical cash flows, income growth projections and ability to expand through Western's marketing expertise, management team and workforce strength, and proximity to the Company's other US assets to allow for synergies. Goodwill was revalued at the year-end exchange rate to $7.0 million as at December 31, 2022 and the related foreign exchange gain of $0.2 million was recognized in the translation reserve.

The Company incurred acquisition related transaction costs of $0.3 million for the year ended December 31, 2022, which are included in selling and administration in the statement of comprehensive income.

For the year ended December 31, 2022, the acquired operations contributed sales of $9.1 million and net earnings before tax of $1.5 million. Had the acquisition occurred on January 1, 2022, management estimates that it would have contributed $26.3 million to sales and $4.4 million to net earnings before transaction costs and tax.

5. Inventory

Accounting policy

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

(i) Lumber by species (hemlock and balsam, Douglas fir, and yellow and western red cedar) and facility; and
(ii) Logs by sort by end use (saw logs and pulp logs).

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

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

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

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

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

5. Inventory (continued)

Supporting information

	December 31, 2022			December 31, 2021		
	Gross carrying value	Provisions	Lower of cost and market	Gross carrying value	Provisions	Lower of cost and market
Logs	$ 161.0	$ (28.2)	$ 132.8	$ 90.0	$ (2.7)	$ 87.3
Lumber	94.2	(24.9)	69.3	108.2	(6.8)	101.4
Supplies and other	22.7	-	22.7	18.9	(0.4)	18.5
	$ 277.9	$ (53.1)	$ 224.8	$ 217.1	$ (9.9)	$ 207.2

The carrying amount of inventory recorded at net realizable value was $121.2 million at December 31, 2022 (2021: $31.5 million), with the remaining inventory recorded at cost.

For the year ended December 31, 2022, $1,189.5 million (2021: $992.2 million) of inventory was charged to cost of goods sold. This includes an increase in the provision for write-down to net realizable value of $43.2 million for the year ended December 31, 2022 (2021: $0.4 million).

6. Property, plant and equipment

Accounting policy

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

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

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

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

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

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

For Right of use (“ROU”) assets, see Note 11.

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

6. Property, plant and equipment (continued)

Supporting information

	Land	Buildings and equipment	Projects	Logging roads	Total, excluding right of use assets	Right of use assets	Total
Cost							
Balance at December 31, 2020	$ 85.2	$ 459.8	$ 5.9	$ 222.8	$ 773.7	$ 31.8	$ 805.5
Additions	-	-	23.6	8.3	31.9	3.5	35.4
Disposals	(26.5)	(24.5)	-	-	(51.0)	(1.8)	(52.8)
Transfers	-	10.7	(13.9)	3.2	-	-	-
Effect of movements in exchange rates	(0.1)	(0.4)	(0.1)	-	(0.6)	-	(0.6)
Balance at December 31, 2021	58.6	445.6	15.5	234.3	754.0	33.5	787.5
Acquisition (Note 4)	-	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
Accumulated amortization							
Balance at December 31, 2020		$ 220.7		$ 191.0	$ 411.7	$ 10.5	$ 422.2
Amortization		29.3		11.1	40.4	6.5	46.9
Disposals		(23.4)		-	(23.4)	(1.4)	(24.8)
Effect of movements in exchange rates		-		-	-	-	-
Balance at December 31, 2021		226.6		202.1	428.7	15.6	444.3
Amortization		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
Carrying amounts							
At December 31, 2021	$ 58.6	$ 219.0	$ 15.5	$ 32.2	$ 325.3	$ 17.9	$ 343.2
At December 31, 2022	$ 59.5	$ 232.7	$ 16.2	$ 33.4	$ 341.8	$ 22.9	$ 364.7

The Company utilized $3.2 million of cash deposits in twelve months ended December 31, 2022 (YTD 2021: $nil) as equipment was delivered.

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

7. Timber licences

Accounting policy

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

Renewal costs associated with timber tenures are expensed as incurred.

	December 31, 2022	December 31, 2021
Cost		
Balance at beginning of year	$ 169.4	$ 170.7
Disposals	-	(1.3)
Balance at December 31	169.4	169.4
Accumulated amortization		
Balance at beginning of year	69.1	65.7
Amortization	4.0	4.0
Disposals	-	(0.6)
Balance at December 31	73.1	69.1
Carrying amount at December 31	$ 96.3	$ 100.3

8. Biological assets

Accounting policy

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

The Company performs a comprehensive valuation every three years and assesses key assumptions in intervening years for material changes. A comprehensive valuation was performed in 2022.

Supporting information

(a) Reconciliation of carrying amount

	Years ended December 31	
	2022	2021
Carrying value at beginning of year	$ 49.1	$ 53.6
Disposals	-	(0.8)
Change in fair value due to growth and pricing	1.2	0.6
Harvested timber transferred to inventory	(1.2)	(4.3)
Carrying value at December 31	$ 49.1	$ 49.1

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

During the year ended December 31, 2022, the Company harvested and scaled 132,932 cubic metres ("m^3") of logs from its private timberlands, which had a fair value less costs to sell of $178 per m^3 at the date of harvest (2021: 384,249 m^3 and $134 per m^3, respectively).

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

8. Biological assets (continued)

Supporting information (continued)

(b) Measurement of fair values

The change in fair value resulting from price and growth is reflected in cost of goods sold. The fair value measurements for the Company's standing timber of $49.1 million has been categorized as Level 3 fair value based on the inputs to the valuation technique used as discussed in the following table.

Valuation technique	Significant unobservable inputs	Inter-relationship between key unobservable inputs and fair value measurement
Discounted cash flows*:* The valuation model considers the present value of the net cash flows expected to be generated by the individual private timberlands utilizing a harvest optimization approach. The cash flow projections include specific estimates for 25 years. The expected net cash flows are discounted using a risk-adjusted discount rate.	• Estimated future log prices per m^3 (\$95 - \$298, weighted average \$136). • Estimated harvest costs per m^3 (\$89 - \$110, weighted average \$95). • Estimated harvest annual volume (100,000 - 200,000 m^3, weighted average 116,000 m^3). • Risk-adjusted discount rate (weighted average 7.50%).	The estimated fair value would increase (decrease) if: • The estimated log prices per m^3 were higher (lower); • The estimated harvest costs per m^3 were lower (higher); • The estimated harvest volumes were higher (lower); or • The risk-adjusted discount rates were lower (higher).

(c) Risk management strategies related to biological assets

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

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

9. Other assets

	December 31, 2022	December 31, 2021
Export tax receivable and related interest (Note 19)	$ 63.7	$ 40.4
Investments, long-term loans and advances	11.0	10.0
Note receivable	2.6	2.6
Cash deposits on equipment	0.2	1.2
Other	0.8	1.0
	78.3	55.2
Current portion of note receivable	2.6	-
	$ 75.7	$ 55.2

10. Long-term debt

Accounting policy

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

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

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

10. Long-term debt (continued)

Supporting information

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.

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

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

	December 31, 2022	December 31, 2021
Available Credit Facility	$ 250.0	$ 250.0
Outstanding letters of credit	(16.0)	(8.6)
Unused portion of Credit Facility	$ 234.0	$ 241.4

	Years ending December 31, 2022	2021
Balance, beginning of year	$ -	$ 72.3
Interest on equipment loan	-	0.1
Equipment loan repayments	-	(2.2)
Net repayments on revolving term loan	-	(70.2)
Balance, December 31	$ -	$ -

11. Lease liabilities

Accounting policy

At inception of a contract, the Company assesses whether a contract is, or contains, a lease. A contract is or contains a lease if the contract conveys the right to control the use of an identified asset for a period of time in exchange for consideration.

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

The ROU asset is subsequently amortized using the straight-line method from the commencement date to the earlier of the end of the lease term or the useful life of the underlying asset. The ROU asset is reduced by any impairment losses, if any, and adjusted for remeasurements of the lease liability. The Company presents ROU assets in property, plant and equipment in its consolidated statement of financial position (see Note 6).

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

11. Lease liabilities (continued)

Accounting policy (continued)

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

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

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

Supporting information

Changes in the lease liabilities are as follows:

	December 31, 2022	December 31, 2021
Lease liabilities, beginning of year	$ 18.3	$ 21.6
New leases and modifications	11.6	3.5
Terminations	(0.3)	(0.5)
Finance costs (Note 23)	0.9	0.9
Lease payments	(7.5)	(7.2)
Effect of movements in exchange rates	0.2	-
Lease liabilities, December 31	$ 23.2	$ 18.3
Current	$ 6.8	$ 5.5
Long term	16.4	12.8
	$ 23.2	$ 18.3

The weighted average incremental borrowing rate used to establish lease obligations in 2022 was approximately 6.65% (2021: 4.45%).

In addition to the above, the Company recognized an expense of $3.1 million during the year ended December 31, 2022 (2021: $2.8 million), relating to short term and low value lease payments.

12. Income taxes

Accounting policy

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

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

(a) Current tax

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

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

12. Income taxes (continued)

Accounting policy (continued)

(b) *Deferred income tax*

Deferred income tax is recognized in respect of temporary differences between the carrying amounts of assets and liabilities for accounting purposes and the amounts used for taxation purposes. Deferred income tax is not recognized if it arises on initial recognition of an asset or liability in a transaction, other than a business combination, that at the time of the transaction affects neither accounting profit nor taxable profit.

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

Deferred income tax is measured at the rates that are expected to be applied to temporary differences when they reverse, using rates enacted or substantively enacted at the reporting date.

Supporting information

	Years ended December 31,	
	2022	2021
Current tax expense	$ 12.5	$ 64.1
Deferred income tax expense (recovery)	10.1	(1.7)
	$ 22.6	$ 62.4

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

	Years ended December 31,	
	2022	2021
Income tax expense at the statutory rate of 27.00% (2021 – 27.00%)	$ 22.8	$ 71.6
Difference in tax rates	(0.8)	(2.6)
Over (under) provided for in prior years	-	(1.0)
Other permanent differences	0.7	(0.9)
Change in unrecognized deductible temporary differences	(0.1)	(4.7)
Total tax expense at effective rate of 26.8% (2021 – 23.5%)	$ 22.6	$ 62.4

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

12. Income taxes (continued)

Supporting information (continued)

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

	Opening Balance	Recognized in Profit or Loss	Recognized in OCI and Equity	Ending Balance
For the year ended December 31, 2022				
Deferred income tax assets				
Tax loss carry-forwards	$ 1.6	$ -	$ -	$ 1.6
Employee future benefits obligation	3.1	(0.6)	(1.1)	1.4
Provisions and other	13.7	(3.8)	(0.3)	9.6
	18.4	(4.4)	(1.4)	12.6
Deferred income tax liabilities				
Intangible assets	(30.1)	5.2	-	(24.9)
Biological assets	(6.6)	6.6	-	-
Property, plant and equipment	(35.2)	(17.5)	-	(52.7)
	(71.9)	(5.7)	-	(77.6)
	$ (53.5)	$ (10.1)	$ (1.4)	$ (65.0)
For the year ended December 31, 2021				
Deferred income tax assets				
Tax loss carry-forwards	$ 6.2	$ (1.8)	$ (2.8)	$ 1.6
Employee future benefits obligation	4.6	(0.4)	(1.1)	3.1
Provisions and other	12.9	1.2	(0.4)	13.7
	23.7	(1.0)	(4.3)	18.4
Deferred income tax liabilities				
Intangible assets	(32.0)	1.9	-	(30.1)
Biological assets	(7.2)	0.6	-	(6.6)
Property, plant and equipment	(35.4)	0.2	-	(35.2)
	(74.6)	2.7	-	(71.9)
	$ (50.9)	$ 1.7	$ (4.3)	$ (53.5)

As recorded in the statement of financial position as follows:

	December 31, 2022	December 31, 2021
Deferred income tax assets	$ 0.2	$ 0.2
Deferred income tax liabilities	(65.2)	(53.7)
	$ (65.0)	$ (53.5)

The Company has recognized deferred income tax assets in relation to unused tax losses that are available to carry forward against future taxable income. At December 31, 2022, the Company and its subsidiaries have unused non-capital tax losses carried forward totalling $2.3 million in the US (2021: $1.8 million) and $4.2 million in Canada (2021: $4.7 million), which can be used to reduce taxable income. The Company has unused capital losses carried forward of approximately $46.8 million (2021: $45.6 million) available to be utilized against future capital gains indefinitely.

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

	December 31, 2022	December 31, 2021
Temporary deductible differences	$ 31.6	$ 31.6
Capital loss carry-forwards	46.8	45.6
	$ 78.4	$ 77.2

(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 December 31, 2022			
Defined benefit employee future benefits obligation (Note 20)	$ -	$ 5.1	$ 5.1
Defined contribution employee future benefits obligation	-	2.7	2.7
Environmental provision	1.9	1.8	3.7
Deferred share unit plan liabilities (Note 16(b))	2.4	-	2.4
Performance share unit plan liabilities (Note 16(c))	3.8	2.1	5.9
Restricted share unit plan liabilities (Note 16(d))	0.4	1.5	1.9
Other	-	2.2	2.2
	$ 8.5	$ 15.4	$ 23.9
As at December 31, 2021			
Defined benefit employee future benefits obligation (Note 20)	$ -	$ 10.6	$ 10.6
Defined contribution employee future benefits obligation	-	1.0	1.0
Environmental provision	-	1.6	1.6
Deferred share unit plan liabilities (Note 16(b))	4.8	-	4.8
Performance share unit plan liabilities (Note 16(c))	3.0	6.3	9.3
Restricted share unit plan liabilities (Note 16(d))	-	1.5	1.5
Other	-	1.0	1.0
	$ 7.8	$ 22.0	$ 29.8

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

14. Reforestation obligation

Accounting policy

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

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

Reforestation on private timberlands is expensed as incurred.

Supporting information

Changes in the reforestation obligation are as follows:

	Years ended December 31	
	2022	2021
Reforestation obligation, beginning	$ 22.4	$ 22.4
Provision charged	9.4	6.2
Expenditures	(10.1)	(6.4)
Unwind of discount (Note 23)	0.4	0.2
	22.1	22.4
Less current portion	8.3	9.9
Long term reforestation obligation, December 31	$ 13.8	$ 12.5

The reforestation expenditures are expected to occur over the next one to ten years and have been discounted at risk-free rates of 3.25% to 4.61% (2021: 0.84% to 1.59%). The total undiscounted amount of the estimated future expenditures required to settle the reforestation obligation at December 31, 2022 is $24.5 million (2021: $23.2 million).

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

15. Share capital

Accounting policy

The Company's authorized capital consists of an unlimited number of common shares and preferred shares. Incremental costs directly attributable to the issuance of shares and share options are recognized as a deduction from equity, net of any tax effects.

Supporting information

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

	Number of Common Shares	Amount
Balance at December 31, 2020	375,232,166	$ 479.9
Exercise of stock options	1,250,973	1.9
Repurchase of shares	(47,702,569)	(61.0)
Balance at December 31, 2021	328,780,570	420.8
Exercise of stock options	108,585	0.1
Repurchase of shares	(12,146,409)	(15.5)
Balance at December 31, 2022	316,742,746	$ 405.4

During 2022, the Company paid cash dividends of $15.3 million (2021: $14.3 million).

On August 3, 2022, Western renewed its Normal Course Issuer Bid ("NCIB") whereby it can purchase for cancellation up to 27,420,905 of the Company's common shares, representing 10% of the public float outstanding as of August 3, 2022. The renewed NCIB expires August 10, 2023.

For the year ended December 31, 2022, the Company repurchased and cancelled 12,146,409 common shares for $20.3 million at an average price of $1.67 per share, of which $15.5 million was charged to share capital and $4.8 million to retained earnings (2021: 47,702,569 common shares for $96.9 million at an average price of $2.03 per common share, with charges of $61.0 million and $35.9 million to share capital and retained earnings, respectively).

In addition, 250,000 stock options were exercised in 2022 with 108,585 common shares issued on a cashless basis resulting in a $0.1 million charge to retained earnings (2021: 3,012,620 stock options exercised with 47,620 common shares issued for cash proceeds of $0.1 million and 1,203,353 common shares issued on a cashless basis resulting in a $1.0 million charge to retained earnings).

16. Share-based compensation plans

Accounting policy

Stock options

The Company has established an incentive stock option plan (the "Option Plan") for eligible directors, officers and employees, accounting for these plans using the fair value method. The grant-date fair value of options is recognized as compensation expense, with a corresponding increase in contributed surplus, over the vesting period. Cash consideration received when an option is exercised is credited to share capital, as is the related compensation expense previously recorded in contributed surplus.

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

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

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

16. Share-based compensation plans (continued)

Accounting policy (continued)

Share units

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

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

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

Supporting information

(a) Stock-option plan

The Option Plan permits the granting of options to eligible participants to purchase up to an aggregate of 30,000,000 common shares, of which 4,706,850 remain available for future issuance. Each option is exercisable, subject to vesting terms of 20% per year and immediately upon a change in control of the Company, into one common share, subject to adjustments, at a price of not less than the closing price of the common shares on the TSX on the day immediately preceding the grant date. Options granted under the Option Plan expire a maximum of ten years from the date of the grant.

500,000 options were granted under the plan in 2022 (2021: no options granted).

The following table summarizes the change in options outstanding:

	Year ended December 31, 2022		Year ended December 31, 2021	
	Number of options	Weighted average exercise price	Number of options	Weighted average exercise price
Outstanding at beginning of year	15,247,304	$ 1.71	18,259,924	$ 1.58
Granted	500,000	1.47	-	-
Exercised	(250,000)	0.96	(3,012,620)	0.93
Forfeited	(363,847)	1.31	-	-
Outstanding at December 31	15,133,457	$ 1.72	15,247,304	$ 1.71

Details of options outstanding under the Option Plan as at December 31, 2022 are as follows:

Exercise Price	Number outstanding Dec. 31, 2022	Weighted average remaining option life (years)	Weighted average exercise price	Number exercisable Dec. 31, 2022	Weighted average exercise price
$1.05 – 1.27	6,339,450	5.6	$ 1.10	3,375,780	$ 1.14
$1.47 – 1.97	3,753,802	5.7	1.89	2,379,648	1.95
$2.09 – 2.74	5,040,205	2.9	2.39	4,854,472	2.37
	15,133,457	4.8	$ 1.72	10,609,900	$ 1.89

In 2022, the Company recorded equity-based compensation expense for these options of $0.2 million (2021: $0.5 million), with a corresponding increase to contributed surplus.

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

16. Share-based compensation plans (continued)

Supporting information (continued)

(b) Deferred share unit plan

The Company has a DSU Plan for non-executive directors who may elect to take a portion of their fees in the form of DSUs with the number of DSUs allotted determined by dividing the dollar portion of the quarterly fees a director elects to take in DSUs by the share price value on the fifth day following each quarter end. DSU holders are entitled to DSU dividends, equivalent to the dividend they would have received had they held their DSUs as common shares. For dividends, the number of DSUs allotted is determined by dividing the total dollar value of the dividend each DSU holder would have received, by the closing share price on the dividend payment date.

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

	Year ended December 31, 2022		Year ended December 31, 2021	
	Number of DSUs	Weighted average unit value[1]	Number of DSUs	Weighted average unit value[1]
Outstanding at beginning of year	2,288,822	$ 1.43	2,471,200	$ 1.19
Granted[1]	564,044	1.43	267,622	2.02
Redeemed	(785,495)	1.38	(450,000)	0.47
Outstanding at December 31	2,067,371	$ 1.45	2,288,822	$ 1.43

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

In 2022, the Company recorded compensation recovery for these DSUs of $2.1 million (2021: $2.2 million expense), with a corresponding decrease (2021: increase) to accounts payable and accrued liabilities (Note 13).

(c) Performance share unit plan

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

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

	Year ended December 31, 2022		Year ended December 31, 2021	
	Number of PSUs	Weighted average unit value[1]	Number of PSUs	Weighted average unit value[1]
Outstanding at beginning of year	3,538,407	$ 1.40	2,838,304	$ 1.54
Granted[1]	1,011,852	2.02	1,212,752	1.57
Redeemed	(718,165)	1.89	(512,649)	2.61
Forfeited	(240,143)	1.63	-	-
Outstanding at December 31	3,591,951	$ 1.46	3,538,407	$ 1.40

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

In 2022, the Company recorded compensation recovery for these PSUs of $0.3 million (2021: $8.2 million expense), with a corresponding decrease (2021: increase) to accounts payable and accrued liabilities and other liabilities (Note 13).

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

16. Share-based compensation plans (continued)

Supporting information (continued)

(d) Restricted share unit plan

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

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

	Year ended December 31, 2022		Year ended December 31, 2021	
	Number of RSUs	Weighted average unit value[1]	Number of RSUs	Weighted average unit value[1]
Outstanding at beginning of year	2,201,462	$ 1.52	357,060	$ 1.05
Granted[1]	1,611,498	1.74	1,844,402	1.61
Forfeited	(374,185)	1.61	-	-
Outstanding at December 31	3,438,775	$ 1.61	2,201,462	$ 1.52

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

In 2022, the Company recorded compensation expense for these RSUs of $0.4 million (2021: $1.4 million) with a corresponding increase to accounts payable and accrued liabilities and other liabilities (Note 13).

17. Earnings per share

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

	Year ended December 31, 2022			Year ended December 31, 2021		
	Net income attributable to equity shareholders	Weighted average number of shares	Per share	Net income attributable to equity shareholders	Weighted average number of shares	Per share
Issued shares, beginning of year		328,780,570			375,232,166	
Effect of shares:						
Issued		92,818			485,627	
Repurchased		(5,925,968)			(17,215,540)	
Basic earnings per share	$ 61.7	322,947,420	$ 0.19	$ 201.4	358,502,253	$ 0.56
Effect of dilutive securities:						
Stock options		2,193,071			2,986,641	
Diluted earnings per share	$ 61.7	325,140,491	$ 0.19	$ 201.4	361,488,894	$ 0.56

18. Capital requirements

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

In July 2022, Western confirmed strategic capital investments of approximately $29 million in its BC operations to improve Western's long-term competitiveness and grow its value-added wood products business, including:

- $12.3 million in a new continuous kiln at the Saltair sawmill in Ladysmith, BC; and
- $7.9 million at the Duke Point facility in Nanaimo, BC, to optimize the centralized planer facility with new equipment, including a machine stress rated ("MSR") lumber grading machine.

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

Changes to the capital structure may be made as strategic opportunities arise. To maintain or adjust its capital structure, the Company may buy back shares, issue new shares, source new debt, or sell assets. The Company has internal controls to ensure changes to the capital structure are properly reviewed and approved.

In 2013, the Company initiated a quarterly dividend program which is at the discretion of the Company's Board of Directors. The quarterly dividend was suspended in May 2020, in response to the uncertainties arising from the global economic impacts of COVID-19 and as a result of the financial impact of the United Steelworkers Local 1-1937 strike, and reinstated at $0.01 per common share in the first quarter of 2021. In the second quarter of 2022 the Company increased its dividend to $0.0125 per common share and paid total cash dividends of $15.3 million in 2022.

In 2022, the Company renewed an NCIB permitting the purchase and cancellation up to 27,420,905 common shares prior to August 10, 2023, and at the discretion of the Company's Board of Directors. Including common shares repurchased and cancelled under the previous NCIB which expired on August 10, 2022, Western repurchased and cancelled 12,146,409 common shares for $20.3 million at an average price of $1.67 per common share in 2022.

As at December 31, 2022, the Company had no drawings on its credit facility and held cash and cash equivalents of $15.8 million (2021: $nil and $130.0 million respectively). Under the Credit Facility agreement, the Company is subject to certain financial covenants. As at December 31, 2022, the Company is in compliance with all financial covenants.

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

19. Commitments and contingencies

(a) Softwood lumber duty dispute

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

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

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

19. Commitments and contingencies (continued)

(a) Softwood lumber duty dispute (continued)

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.

As cash deposit rates exceeded final duty rates for lumber shipments made in 2017 through 2020, the Company recognized a long-term interest-bearing duty receivable totalling USD$43.0 million (CAD$56.4 million) in its Statement of financial position, of which USD$13.4 million (CAD$18.0 million) was recognized as an export tax recovery in 2022 (2021: USD$2.5 million; CAD$3.3 million). This recovery was netted against export tax expense of $38.9 million (2021: $29.8 million), resulting in a net export tax of $20.9 million (2021: $26.5 million) as recorded in the Statement of comprehensive income.

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. Final results are expected in late 2023 or early 2024.

On January 24, 2023, the DoC released its preliminary determination for CV and AD rates resulting from its fourth administrative review of CV and AD rates for shipments in 2021. The DoC may revise these rates between the preliminary and the final determination, expected to be released in the third quarter of 2023. Cash deposits continue at the combined duty rate of 8.59% until the final determinations are published, after which the 2021 rate will apply.

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 2020 and preliminary rates for 2021:

Administrative review				AR4	AR3	AR2	AR1	AR1
Lumber shipment date	Aug. 9, 2022 through Dec. 31, 2022	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	3.83%	6.32%	6.31%	7.42%	14.19%	14.19%	14.19%	14.19%
Cash deposit rate, AD	4.76%	11.59%	11.59%	1.57%	6.04%	6.04%	6.04%	6.04%
Cash deposit rate, combined	8.59%	17.91%	17.90%	8.99%	20.23%	20.23%	20.23%	20.23%

	2021 Preliminary	2020 Final	2019 Final	2018 Final	2017 Final
Duty rate, CV	2.19%	3.83%	6.32%	7.42%	7.26%
Duty rate, AD	6.05%	4.76%	11.59%	1.57%	1.57%
Duty rate, combined	8.24%	8.59%	17.91%	8.99%	8.83%

At December 31, 2022, including interest of USD$4.0 million (2021: USD$2.3 million), the duty receivable of USD$47.0 million (2021: USD$31.9 million) was revalued at the year-end exchange rate to CAD$63.7 million (2021: CAD$40.4 million).

Interest revenue of $2.2 million was recorded in finance costs for the year ended December 31, 2022 (2021: $0.7 million). A related foreign exchange gain of $3.2 million was recorded in other income for the year ended December 31, 2022 (2021: foreign exchange loss of $0.4 million).

As at December 31, 2022, the Company had paid $203.0 million of duties, all of which remain held in trust by US Department of Treasury (2021: $151.8 million). With the exception of USD$43.0 million (CAD$58.3 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.

19. Commitments and contingencies (continued)

(b) Manufactured Forest Products Regulation

In 2020, the BC government amended the Manufactured Forest Products Regulation (the "Regulation") to require lumber made from Western Red Cedar ("WRC") and Cypress ("CYP") be fully manufactured to be eligible for export, with the application of a tax on WRC and CYP exported from the BC Coast to any location within 3,000 miles. The Regulation set a variable tax rate dependent upon the extent of processing applied to the lumber before it is exported and based on the cash deposit rate levied set by the DoC for Canadian lumber imports to the US (see Note 19(a)).

During 2022, the Company recorded export tax expense of $4.3 million (2021: $3.6 million) in cost of goods sold in respect of this Regulation.

(c) Litigation and claims

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

(d) Long-term fibre supply agreements

Accounting policy

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

Supporting information

The Company has several long-term commitments to supply fibre to third parties including a 40-year agreement, entered into on March 17, 2006 in conjunction with its acquisition of the Englewood Logging Division ("Englewood"). As consideration for entering into this agreement, the Company received a price premium of $80.0 million earned as wood chips are delivered over the contract term, of which $45.0 million was set-off against the consideration due by the Company on its acquisition of the Englewood assets. The Company recorded the price premium as deferred revenue (Note 26(b)) and granted a first charge over the acquired assets to secure certain of these obligations.

In addition, certain of the Company's long-term fibre supply agreements with third parties have minimum volume requirements and, if unable to produce the minimum volume, may require the Company to conduct whole log chipping, sell saw logs, purchase chips or pulp logs or incur a penalty under the fibre supply agreements. If the Company takes any significant curtailments in its sawmills the volume of chips produced is reduced and accordingly there is greater risk that the Company may not meet its contractual obligations where it is not possible to secure replacement chips on the open market. Based on the exercise of force majeure provisions in 2022 and 2021 the Company believes it has satisfied annual fibre commitments for those years.

(e) Bond obligations

As at December 31, 2022 the Company posted $13.3 million in bid bonds (2021: $9.9 million) for purchases under timber sales agreements, with expiry dates extending through October 2025 and $6.8 million in customs bonds (2021: $4.4 million) for softwood lumber duties, with an expiry of February 2023.

(f) Purchase commitments

As at December 31, 2022, the Company had contracts to acquire property, plant and equipment totalling $9.3 million (2021: $6.1 million) and contractual commitments of $4.2 million (2021: $7.0 million) for purchases of lumber for wholesale programs.

19. Commitments and contingencies (continued)

(g) Pension funding commitments

The Company has funding requirements under its defined benefit pension plan of $0.5 million for 2023 and an estimated $0.7 million per year on average for 2024 to 2031, or until such time as a new funding valuation may lead to a change in the payments required.

20. Employee future benefits

Accounting policy

(a) Termination benefits

Termination benefits are expensed at the earlier of when the Company can no longer withdraw the offer of those benefits and when the Company recognizes a cost for restructuring that includes the payment of termination benefits.

(b) Short-term employee benefits

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

(c) Employee future benefits

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

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

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

Remeasurements of the net defined benefit liability, which comprise actuarial gains and losses, the return on plan assets and the effect of the asset ceiling test are recognized immediately in other comprehensive income. The Company calculates the net interest expense (income) on the liability by applying the discount rate used to measure the defined benefit obligation at the beginning of the year to the liability, considering any changes in the net defined benefit liability over the year as a result of contributions and benefit payments. Net interest and other expenses related to defined benefit plans are recognized in net income.

Where a defined benefit plan's benefits are altered or curtailed, the resulting change in benefit that relates to past service or the gain or loss on curtailment is recognized immediately in net income. The Company recognizes gains and losses on settlement of a defined benefit plan when the settlement occurs.

Western also makes fixed contributions to privately administered investment funds on behalf of defined contribution plan members. The Company has no further payment obligations once the contributions have been paid.

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

20. Employee future benefits (continued)

Accounting policy (continued)

(c) Employee future benefits (continued)

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

For hourly employees covered by forest industry union defined benefit pension plans, the Company's contributions as required under the collective agreements are charged to net income as services are rendered by employees. The Company has no further payment obligations once the contributions have been paid.

Supporting information

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

	December 31, 2022		December 31, 2021	
	Salaried pension Plans	Non-pension Plans	Salaried pension Plans	Non-pension Plans
Accrued benefit obligation:				
Balance, beginning of year	$ 117.6	$ 2.8	$ 129.2	$ 3.0
Current service costs and administrative expenses	0.3	-	0.3	-
Benefits and administrative expenses paid	(8.1)	(0.2)	(8.7)	(0.2)
Interest cost	3.2	0.1	2.9	0.1
Actuarial gain	(22.2)	(0.4)	(6.1)	(0.1)
Balance, end of year	$ 90.8	$ 2.3	$ 117.6	$ 2.8
Plan assets:				
Fair value, beginning of year	$ 109.8	$ -	$ 116.1	$ -
Company contributions	1.7	0.2	2.0	0.2
Benefits and administrative expenses paid	(8.1)	(0.2)	(8.7)	(0.2)
Interest on plan assets	3.0	-	2.6	-
Actuarial loss	(18.4)	-	(2.2)	-
Fair value, end of year	$ 88.0	$ -	$ 109.8	$ -
Net employee future benefits recognized in Statement of Financial Position (Note 13)	$ 2.8	$ 2.3	$ 7.8	$ 2.8
Cumulative actuarial gains (losses), beginning of year	$ (34.4)	$ 2.8	$ (38.3)	$ 2.7
Actuarial gains recognized directly in OCI	3.8	0.4	3.9	0.1
Cumulative actuarial gains (losses), end of year	$ (30.6)	$ 3.2	$ (34.4)	$ 2.8
Experience gains (losses):				
Experience gains (losses) on plan assets:				
Amount	$ (18.4)	n/a	$ (2.2)	n/a
Percentage of plan assets	(20.95%)	n/a	(2.01%)	n/a
Experience gains (losses) on plan liabilities:				
Amount	$ 0.4	$ -	$ (0.2)	$ -
Percentage of plan assets	0.40%	0.00%	(0.19%)	0.00%

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

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

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

20. Employee future benefits (continued)

Supporting information (continued)

(c) Employee future benefits (continued)

Total cash payments for employee future benefits for the year ended December 31, 2022 were $14.1 million (2021: $14.3 million), consisting of cash contributed by the Company to its funded pension plans, cash payments directly to beneficiaries for its unfunded other benefit plans, and cash contributed to the forest industry union defined benefit plans.

The Company measures the fair value of plan assets and the accrued benefit obligations for its defined benefit plans for accounting purposes annually at December 31. The most recent actuarial valuations of the funded defined benefit pension plans were performed at December 31, 2021. The next actuarial valuation for both the funded and unfunded defined benefit plans and other unfunded post-employment benefit plans is scheduled for December 31, 2024. Included in the accrued benefit obligations and plan assets for salaried pension plans, are accrued benefit obligations of $86.8 million at December 31, 2022 (2021: $113.0 million) in respect of plans that are wholly or partially funded.

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

	December 31, 2022	December 31, 2021
Equity securities	10%	10%
Debt securities	86%	87%
Other	4%	3%
	100%	100%

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

	December 31, 2022	December 31, 2021	December 31, 2022 Increase (Decrease) of Accrued Benefit Obligation with Change Assumption 1% Increase	1% Decrease
Discount rate, beginning of year for:				
Pension plans	2.84%	2.33%	n/a	n/a
Non-pension plans	2.75%	2.10%	n/a	n/a
Discount rate, end of year for:				
Pension plans	5.17%	2.84%	$ (7.3)	$ 8.5
Non-pension plans	5.20%	2.75%	(0.2)	0.2
Rate of compensation increase for all plans	0.01%	0.01%	-	-
Health care and medical cost trend rate	5.61% in 2019 grading to 3.86% in 2029	5.61% in 2019 grading to 3.86% in 2029	0.1	(0.1)
Future mortality	n/a	n/a	(0.2)	0.2

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

	December 31, 2022 Salaried Pension Plans	December 31, 2022 Non-Pension Plans	December 31, 2021 Salaried Pension Plans	December 31, 2021 Non-Pension Plans
Defined benefit plans:				
Current service costs and administrative expenses	$ 0.3	$ -	$ 0.3	$ -
Net interest cost (Note 23)	0.2	0.1	0.3	0.1
Total cost of employee post-retirement benefits	$ 0.5	$ 0.1	$ 0.6	$ 0.1

20. Employee future benefits (continued)

Supporting information (continued)

(c) Employee future benefits (continued)

The Company is committed to make funding contributions to its defined benefit plans of $1.2 million during 2023.

The Company's unionized employees are members of industry-wide pension plans to which the Company contributes a predetermined amount per hour worked by an employee. The Company's liability is limited to its contributions. The pension expense for these plans is equal to the Company's contributions. For 2022, such contributions amounted to $7.6 million (2021: $8.0 million).

21. Financial instruments – fair values and risk management

Accounting policy

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

(a) Financial assets

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

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

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

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

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

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

(b) Financial liabilities

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

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

(c) Derivative financial instruments

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

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

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

(c) Derivative financial instruments (continued)

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

(d) Accounting classifications and fair values

The following table shows the carrying amounts and fair values of financial assets and financial liabilities, including their levels in the fair valuation hierarchy. It does not include fair value information for financial assets or liabilities not measured at fair value if the carrying amount is a reasonable approximation of fair value. There has been no movement between fair value levels since December 31, 2021.

		December 31, 2022			December 31, 2021		
	Level	Mandatory at FVTPL	Amortized Cost	Total	Mandatory at FVTPL	Amortized Cost	Total
Financial assets							
Market-based investments	2	$ 4.5	$ -	$ 4.5	$ 4.7	$ -	$ 4.7
Foreign currency forward contracts	2	0.1	-	0.1	1.1	-	1.1
Cash and cash equivalents		-	15.8	15.8	-	130.0	130.0
Trade and other receivables		-	59.9	59.9	-	56.3	56.3
Other investments and advances		-	1.4	1.4	-	4.8	4.8
Export tax receivable (Note 9)	3	63.7	-	63.7	40.4	-	40.4
Total financial assets		$ 68.3	$ 77.1	$ 145.4	$ 46.2	$ 191.1	$ 237.3

	Level	Mandatory at FVTPL	Other Financial Liabilities	Total	Mandatory at FVTPL	Other Financial Liabilities	Total
Financial liabilities							
Accounts payable and accrued liabilities		$ -	$ 108.5	$ 108.5	$ -	$ 112.8	$ 112.8
Lease liabilities (Note 11)		-	23.2	23.2	-	18.3	18.3
Total financial liabilities		$ -	$ 131.7	$ 131.7	$ -	$ 131.1	$ 131.1

(e) Financial risk management

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

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

(i) Credit risk

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

Cash and cash equivalents

The Company held cash and cash equivalents of $15.8 million at December 31, 2022 (2021: $130.0 million), which represents its maximum credit exposure on these assets. The cash and cash equivalents are held at highly rated financial institutions and as such, the Company does not believe that these are exposed to significant credit risk.

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

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

(e) Financial risk management (continued)

(i) Credit risk (continued)

Accounts receivable

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

The Company's general practice is to insure substantially all lumber receivables for 90% of value with the Export Development Corporation or Coface Canada, with the exception of China and Japan which are sold on either a cash basis or secured by irrevocable letters of credit, which limits the Company's credit exposure.

Management also considers the demographics of the Company's customer base, including the default risk of the industry and country in which customers operate, as these factors may influence credit risk. The Company has determined that there is no concentration of credit risk either geographically or by counterparty.

The Company regularly reviews the collectability of its accounts receivable and establishes an allowance for doubtful accounts based on its best estimate of any potentially uncollectible accounts. The allowance for doubtful accounts was negligible as at December 31, 2022 and 2021.

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

	December 31	
	2022	2021
Not past due	$ 57.6	$ 56.6
Past due 0-30 days	2.4	0.7
Past due 31-120 days	-	0.1
	$ 60.0	$ 57.4

Other assets

The Company has recognized a long-term receivable from the DoC for recovery of export tax and accrued interest thereon totalling $63.7 million (see Note 19(a)).

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

Guarantees

The Company did not provide any guarantees in 2022 and 2021.

(ii) Interest rate risk

The Company is exposed to interest rate risk through its current financial assets and financial obligations bearing variable interest rates. Based on the Company's debt structure at December 31, 2022, an increase of 1% in interest rates would result in a negligible amount to annual net income (2021: negligible). The Company does not currently use derivative instruments to reduce its exposure to interest rate risk.

(iii) Currency risk

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

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

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

(e) Financial risk management (continued)

(iii) Currency risk (continued)

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

During 2021, the Company entered into forward contracts to sell USD and JPY in order to mitigate a portion of the foreign currency risk. At December 31, 2022, the Company had outstanding obligations to sell an aggregate USD$16.0 million at an average exchange rate of CAD$1.3633 per USD with maturities through January 19, 2023 (2021: USD$71.0 million at an average exchange rate of CAD$1.2795 per USD).

	Years ended December 31	
	2022	2021
Fair value of asset, beginning of year	$ 1.1	$ 0.6
Fair value of asset at December 31	0.1	1.1
Change in unrealized foreign currency (losses) gains	(1.0)	0.5
Realized foreign currency losses on settled contracts	(1.8)	(1.4)
Foreign currency losses recognized in revenue	$ (2.8)	$ (0.9)

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.

An increase of 1% in the value of the CAD relative to the USD would result in a loss of approximately $0.1 million in relation to the USD foreign exchange contracts held at December 31, 2022.

Certain receivable balances at December 31, 2022 are denominated in foreign currencies, principally, the USD. Accordingly, fluctuations in foreign exchange rates may affect the carrying value of the underlying accounts receivable. As of December 31, 2022, the Company's USD denominated accounts and other receivables totaled USD$24.7 million. An increase of 1% in the value of the Canadian dollar relative to the USD would result in a decrease of $0.3 million to accounts and other receivables.

At December 31, 2022, the Company held USD$4.5 million in cash and cash equivalents. An increase of 1% in the value of the Canadian dollar relative to the USD would result in a decrease of $0.1 million to cash and cash equivalents.

(iv) Commodity price risk

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

(v) Liquidity risk

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

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

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

(e) Financial risk management (continued)

(v) Liquidity risk (continued)

As at December 31, 2022, the Company had $234.0 million (2021: $241.4 million) available under its Credit Facility. The following are the contractual maturities of financial liabilities, including estimated interest payments:

	Carrying amount	Contractual cash flows	6 months or less	6 – 12 months	2 – 3 years	4 – 5 Years	More than 5 years
Accounts payable and accrued liabilities	$ 108.5	$ 108.5	$ 108.0	$ 0.5	$ -	$ -	$ -
Lease liabilities	23.2	26.0	5.3	3.4	10.2	4.2	2.9
	$ 131.7	$ 134.5	$ 113.3	$ 3.9	$ 10.2	$ 4.2	$ 2.9

22. Other income (expense)

	Years ended December 31	
	2022	2021
Gain on disposal of property, equipment and other assets (Notes 6, 7, 8)	$ 0.6	$ 23.3
Foreign exchange	2.5	(0.4)
Other	(1.0)	(0.5)
	$ 2.1	$ 22.4

In 2022, the Company disposed of surplus equipment and other assets, recognizing $0.6 million gain (2021: $23.3 million gain attributable primarily to gains from the sale of the Orca Quarry assets, the Somass Division assets and other non-core properties and surplus equipment).

23. Finance (income) costs

Accounting policy

Finance (income) costs comprise interest expense on long-term debt and lease liabilities, amortization of deferred financing costs, unwinding of the discount on the reforestation obligation, net interest on the defined benefit plan obligation, offset by interest revenue accrued on the export tax receivable and other notes receivable. All finance (income) costs are recognized in net income during the period using the effective interest method with the exception of the net interest on the net defined benefit obligation, which is recognized as described in Note 20.

Supporting information

	Years ended December 31	
	2022	2021
Long-term debt	$ 0.8	$ 0.8
Lease liabilities (Note 11)	0.9	0.9
Employee future benefits obligation (Note 20)	0.3	0.3
Unwind of discount on provisions (Note 14)	0.4	0.2
Interest revenue on export tax receivable	(2.2)	(0.7)
Amortization of deferred financing costs	0.3	0.4
Other	(0.6)	-
	$ (0.1)	$ 1.9

24. Operating restructuring items

	Years ended December 31	
	2022	2021
Retirement and other benefits	$ 1.9	$ 0.6
Environmental provision	2.0	-
Somass sawmill closure costs	0.6	2.1
	$ 4.5	$ 2.7

25. Segmented information

Accounting policy

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

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

The Company manages its business as a single operating segment, with the majority of Western's property, plant and equipment, biological assets and timber licences located in BC, Canada. The Company harvests and purchases logs which it manufactures into lumber at the Company's sawmills and remanufacturing facilities, and sells its logs and lumber in world-wide markets. Supporting information is included in Note 26.

26. Revenue

Accounting policy

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

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

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

Lumber

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

Logs

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

By-products

Revenue is recognized when control over by-products is transferred to the customer, the timing of this transfer of control varies depending on the individual terms of the sales contract, but is typically at the time by-products leave the Company's facilities or are scaled at the pick-up location. No early payment discounts are offered for by-product sales.

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

26. Revenue (continued)

Supporting information

(a) Disaggregation of revenue

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

	Years ended December 31	
	2022	2021
Primary geographic markets		
Canada	$ 576.4	$ 449.8
United States	436.3	505.0
Japan	204.3	195.3
China	103.8	138.0
Other	105.9	102.7
Europe	17.3	26.9
	$ 1,444.0	$ 1,417.7
Major Products		
Lumber	$ 1,152.5	$ 1,197.5
Logs	230.9	169.3
By-products and other	60.6	50.9
	$ 1,444.0	$ 1,417.7

(b) Contract balances

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

	Years ended December 31	
	2022	2021
Trade and other receivables	$ 60.0	$ 57.4
Other investments and advances	1.4	2.2
Contract liabilities	46.5	48.5

The contract liabilities relate to the consideration received from a customer for a long-term fibre supply contract and are recognized as deferred revenue, for which revenue is recognized straight-line over the term of the contract (see Note 19(d)). The Company recognized related revenue of $2.0 million in 2022 (2021: $1.9 million).

(c) Contract costs

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

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

27. Related parties

Accounting policy

Key management personnel are the Company's directors and executive officers as disclosed in its 2022 and 2021 Annual Reports.

Supporting information

Compensation of key management personnel

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

	Years ended December 31	
	2022	2021
Salaries, directors' fees and short-term benefits	$ 10.0	$ 9.7
Post-employment benefits	0.9	1.6
Share-based compensation, including mark-to-market adjustment	(1.7)	10.7
	$ 9.2	$ 22.0

At December 31, 2022, $10.0 million of key management compensation costs were included in accounts payable and accrued liabilities and other liabilities (2021: $20.5 million).

28. Expense categorization

Expenses by function:

	Years ended December 31	
	2022	2021
Administration	$ 31.6	$ 42.3
Distribution expenses	136.2	135.8
Cost of goods sold	1,189.5	992.2
	$ 1,357.3	$ 1,170.3

Distribution expenses include $20.9 million of export taxes net of recoveries (2021: $26.5 million). See Note 19(a).

Selected costs by nature:

	Years ended December 31	
	2022	2021
Compensation costs	$ 215.9	$ 235.9
Amortization in costs of goods sold	47.9	48.3
Amortization in selling and administration	2.3	2.6

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

29. Non-controlling interest

Huumiis Ventures Limited Partnership ("HVLP"), a limited partnership beneficially owned by Huu-ay-aht First Nations ("HFN"), holds a 35% equity interest in Tsawak-qin Forestry Limited Partnership ("TFLP"; formerly TFL 44 Limited Partnership). In March 2020, HVLP agreed to acquire a further 16% equity interest in TFLP and a 7% equity interest in a newly formed limited partnership which would hold the Alberni Pacific Division ("APD"), with an anticipated closing in the second quarter of 2023. Due to changing circumstances since these agreements were made in 2020, HVLP confirmed on October 31, 2022 that it will not complete these incremental equity acquisitions at this time.

The March 2020 agreement also included an option for TFLP to sell an incremental equity interest of 26% to other area First Nations. Although this option expired, Western, alongside the HFN, continue discussions with interested area First Nations around acquiring an interest in TFLP.

The Board of TFL 44 LP declared distributions in 2022, resulting in a decrease of $0.7 million in non-controlling interest (2021: $1.4 million).

30. Subsequent event

On January 26. 2023, the Company announced it would not restart its APD facility in its current configuration and established a multi-party working group. The working group, which includes representatives from Western, the United Steelworkers union, Indigenous partners and contractually-aligned business, will explore potential viable industrial manufacturing solutions for the site over a 90 day period.

In 2022, Western, TFLP and the HFN commissioned a third party forest products consulting firm, The Beck Group, to look at long-term economically viable primary manufacturing options for APD. Analysis considered the factors of rapidly changing fibre supply and timber profile, forest policies and global market dynamics. The report concluded that operating the mill in its current state is not feasible, and that the investment required to upgrade the mill to be competitive is not financially viable for Western.

The mill was curtailed at various times in 2022 due to a combination of market demand and log availability.

The Company did not recognize an impairment in respect of the APD assets as at December 31, 2022 as the estimated fair value of the assets is in excess of the carrying value.

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