Western Forest Products Inc.

2023 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, 2023, to help security holders and other readers understand our Company and the key factors underlying our financial results. This discussion and analysis should be read in conjunction with our audited annual consolidated financial statements and the notes thereto for the years ended December 31, 2023 and 2022, which can be found on SEDAR+ at www.sedarplus.ca.

The Company has prepared the consolidated financial statements for the years ended December 31, 2023 and 2022 in accordance with IFRS Accounting Standards, 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, equipment, right of use and timber licence assets, impairment adjustments, and changes in fair value of biological assets. Adjusted EBITDA margin is Adjusted EBITDA as a proportion of revenue. Western uses Adjusted EBITDA and Adjusted EBITDA margin as benchmark measurements of our own operating results and as benchmarks relative to our competitors. We consider Adjusted EBITDA to be a meaningful supplement to operating income as a performance measure primarily because amortization expense, impairment adjustments and changes in the fair value of biological assets are non-cash costs, and vary widely from company to company in a manner that we consider largely independent of the underlying cost efficiency of their operating facilities. Further, the inclusion of operating restructuring items which are unpredictable in nature and timing may make comparisons of our operating results between periods more difficult. We also believe Adjusted EBITDA and Adjusted EBITDA margin are commonly used by securities analysts, investors and other interested parties to evaluate our financial performance.

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

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

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, North American and international market conditions, demands and growth; economic conditions; legislative changes and policy initiatives; our growth, marketing, production, wholesale, operational and capital allocation plans, investments and strategies, including but not limited to payment of a dividend or repurchase of shares; fibre availability and regulatory developments; changes to stumpage rates and the expected timing thereof; the impact of COVID-19 or any other public health threat; the execution of our sales and marketing strategy; the development and completion of integrated resource management plans or forest landscape plan pilots by First Nations; the impact of the Nature Agreement on the Company's operations; the impact of the determination of a new allowable annual cut ("AAC") for Tree Farm Licence ("TFL") 19; the Company's pursuit of the TFL 44 AAC determination with government; the potential for viable industrial manufacturing solutions for the Alberni Pacific Division ("APD") facility; the timing and outcome of the negotiation processes for the APD facility, the completion of and expected timing of the acquisition by the Nations; the expected timing and cost of completion and commissioning of the Company's announced strategic investments; and the availability of energy rebates for the Company's equipment and the amounts of such rebates. 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 AAC, the ability to obtain operational permits, development and changes in laws and regulations affecting the forest industry including as related to old growth timber management and the Manufactured Forest Products Regulation, changes in the price of key materials for our products, changes in opportunities, information systems security, future developments relating to COVID-19 and other factors referenced under the "*Risks and Uncertainties*" section herein. The foregoing list is not exhaustive, as other factors could adversely affect our actual results and performance. Forward-looking statements are based only on information currently available to us and refer only as of the date hereof. Except as required by law, we undertake no obligation to update forward-looking statements. Unless otherwise noted, the information in this discussion and analysis is updated to February 13, 2024.

Summary of Selected Annual Information (1)

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

	2023	2022	2021
Revenue			
Lumber (2)	$ 781.6	$ 1,152.5	$ 1,197.5
Logs	180.9	230.9	169.3
By-products and other	55.0	60.6	50.9
Total revenue	1,017.5	1,444.0	1,417.7
Operating income (loss) prior to restructuring and other items	(83.4)	86.7	247.4
Net income (loss)	(70.1)	61.8	202.8
Adjusted EBITDA (3)	$ (29.9)	$ 136.9	$ 302.1
Adjusted EBITDA margin (3)	(3%)	9%	21%
Return on Capital Employed (3)	(4%)	20%	45%
Diluted earnings (loss), dollars per share	$ (0.22)	$ 0.19	$ 0.56
Cash dividends, dollars per share	0.0375	0.0475	0.0400
Total assets	$ 915.4	$ 932.8	$ 959.0
Net debt (cash) (4)	82.4	(15.8)	(130.0)

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

(2) Includes glue-laminated ("glulam") wood products.

(3) 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.

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

Overview

Results in 2023 reflect more challenging macroeconomic conditions, resulting in weaker demand and lower product prices, compared to the same period last year. Net loss for the year was $70.1 million, or $0.22 diluted loss per share, and Adjusted EBITDA was negative $29.9 million. Despite the more challenging operating environment, highlights since the beginning of 2023 included:

- Celebrated the one-year anniversary of the acquisition of the glulam business from Calvert Company, Inc. The business continues to perform to expectations and generated EBITDA margins in excess of 20% in 2023.
- Advanced strategic investments to support value-added manufacturing on the British Columbia ("BC") Coast and grow our value-added wood products, all while continuing to improve Western's long-term competitiveness. We completed the installation of a machine stress rated lumber grader at the Duke Point sawmill location to support increased production of higher value lumber. The continuous kiln at the Saltair sawmill is anticipated to commence commissioning in the first quarter of 2024.
- Announced a $35.9 million agreement to sell a 34% interest in a new forestry limited partnership to four Vancouver Island First Nations, further demonstrating Western's commitment to First Nation partnerships and meaningful reconciliation.
- Advanced joint and collaborative planning of forestry activities with First Nations in whose traditional territories we operate in BC, building upon Western's well-established forestry practices and in support of greater long-term clarity for the stewardship and management of the land base.
- Released our latest Sustainability Report and Carbon Accounting Report, demonstrating our commitment to best practices and reporting standards related to Environmental, Social and Governance ("ESG"). A copy of our latest Sustainability Report and Carbon Accounting Report is available on our website.
- Maintained a strong balance sheet, ending 2023 with liquidity of $147.8 million to support our strategic priorities.

Senior Leadership Change

On February 13, 2024, the Company announced its Executive Vice President and Chief Financial Officer ("CFO"), Stephen Williams, will step down from his role by the end of 2024. Western has commenced an executive search for a new CFO. Mr. Williams will continue in his role as CFO until his replacement has been found, and thereafter be available until the end of 2026 in a limited advisory capacity to support a seamless transition process.

Summary of Selected Quarterly and Annual Results (1)

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

Summary Information		Q4 2023	Q4 2022	Q3 2023	Annual 2023	Annual 2022
Revenue						
Lumber (2)		$ 178.3	$ 219.7	$ 179.9	$ 781.6	$ 1,152.5
Logs		51.1	54.9	38.4	180.9	230.9
By-products and other		17.2	16.4	12.8	55.0	60.6
Total revenue		246.6	291.0	231.1	1,017.5	1,444.0
Freight		16.3	19.7	15.7	75.6	102.4
Export tax expense		4.1	4.7	5.2	20.2	38.9
Export tax recovery		-	-	(4.3)	(4.3)	(18.0)
Stumpage		8.7	27.9	5.9	44.4	118.0
Adjusted EBITDA (3)		$ (1.2)	$ (11.9)	$ (11.6)	$ (29.9)	$ 136.9
Adjusted EBITDA margin (3)		(0%)	(4%)	(5%)	(3%)	9%
Operating income (loss) prior to restructuring and other items		$ (14.4)	$ (23.6)	$ (25.8)	$ (83.4)	$ 86.7
Net income (loss)		(14.3)	(21.4)	(17.4)	(70.1)	61.8
Earnings (loss) per share						
basic and diluted	$ per share	(0.04)	(0.07)	(0.05)	(0.22)	0.19
Operating Information (4)						
Lumber shipments (2)(5)	mmfbm	136	155	130	588	716
Cedar	mmfbm	30	27	34	131	144
Japan Specialty	mmfbm	33	14	19	87	97
Industrial (2)	mmfbm	19	21	19	85	74
Commodity	mmfbm	54	92	58	285	402
Lumber production (2)	mmfbm	125	139	126	561	655
Lumber price, average (2)	$/mfbm	$ 1,313	$ 1,420	$ 1,388	$ 1,329	$ 1,609
Wholesale lumber shipments	mmfbm	4	5	6	19	39
Log shipments	000 m^3	446	367	324	1,384	1,329
Domestic	000 m^3	271	245	222	993	960
Export	000 m^3	-	-	-	-	-
Pulp	000 m^3	175	123	102	391	369
Net production (6)	000 m^3	718	658	678	2,952	3,110
Saw log purchases	000 m^3	200	173	116	675	1,093
Log price, average (7)	$/m^3	$ 112	$ 142	$ 118	$ 122	$ 161
Illustrative Lumber Average Price Data (8)	**Price Basis**					
Grn WRC #2 Clear & Btr 4x6W RL ($C)	cif dest N Euro	$ 8,550	$ 9,744	$ 8,550	$ 8,588	$ 9,844
Grn WRC Deck Knotty 2x6 RL S4S	Net fob Mill	$ 1,077	$ 1,584	$ 1,206	$ 1,264	$ 1,921
Grn WRC #2 & Btr AG 6x6 RL	Net fob Mill	$ 3,315	$ 3,315	$ 3,315	$ 3,315	$ 3,289
Coast Gm WRC Std&Btr NH 3/4x4 RL S1S2E	Net fob Mill	$ 1,138	$ 1,791	$ 1,319	$ 1,383	$ 2,198
Grn Hem Baby Squares Merch 4-1/8x4-1/8 13’	c&f dest Japan	$ 965	$ 1,330	$ 960	$ 1,078	$ 1,677
Grn Dfir Baby Squares Merch 4-1/8x4-1/8 RL S4S	c&f dest Japan	$ 1,125	$ 1,425	$ 1,120	$ 1,188	$ 1,771
Grn Dfir (Portland) #1&Btr 100% FOHC 6x6 Rough	Net fob Mill	$ 1,882	$ 2,002	$ 1,898	$ 1,937	$ 1,946
Hemlock Lumber 2x4 (40x90) Metric RG Utility	cif dest Shanghai	$ 366	$ 397	$ 393	$ 399	$ 485
Coast KD Hem-Fir #2 & Btr 2x4	Net fob Mill	$ 404	$ 494	$ 480	$ 422	$ 842
Average exchange rate – CAD to USD		0.735	0.737	0.746	0.741	0.768
Average exchange rate – CAD to JPY		108.57	104.06	107.78	103.99	100.55

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

Summary of Fourth Quarter 2023 Results

We reported Adjusted EBITDA of negative $1.2 million in the fourth quarter of 2023, as compared to negative $11.9 million in the same period last year. Results in the fourth quarter of 2023 reflect lower realized pricing and shipment volumes on a stronger lumber sales mix, offset by lower stumpage rates as compared to the same period last year.

Net loss was $14.3 million in the fourth quarter of 2023, as compared to $21.4 million in the same period last year. Operating loss prior to restructuring and other items was $14.4 million in the fourth quarter of 2023, as compared to $23.6 million in the same period last year.

Sales

Lumber revenue was $178.3 million in the fourth quarter of 2023 as compared to $219.7 million in the same period last year. The decrease of 19% was due to lower lumber shipment volumes and lower average lumber prices, partially offset by a stronger sales mix and stronger US Dollar ("USD") to Canadian Dollar ("CAD") average exchange rate. Our average realized lumber price decreased by 8% to $1,313 per thousand board feet in the fourth quarter of 2023, as compared to $1,420 per thousand board feet in the same period last year.

Specialty lumber shipments represented 60% of total lumber shipment volumes in the fourth quarter of 2023, as compared to 40% in the same period last year, yielding a stronger sales mix. Japan lumber shipment volumes more than doubled compared to the same period last year, due to a fire-related curtailment at one of Japan's largest sawmills. Cedar and Industrial lumber shipment volumes were generally flat compared to the same period last year. Commodity lumber shipment volumes declined by 41% compared to the same period last year due to weaker market demand.

Log revenue was $51.1 million in the fourth quarter of 2023, as compared to $54.9 million in the same period last year. The decrease of 7% was due to lower log prices and weaker sales mix, partially offset by higher log sales volumes.

By-products and other revenue were $17.2 million, as compared to $16.4 million in the same period last year. The increase of 5% was due to higher revenue from harvesting services provided to third parties, and higher chip volumes partially offset by lower chip prices.

Operations

Lumber production was 125 million board feet in the fourth quarter of 2023, as compared to 139 million board feet in the same period last year. Contributing to this reduction, quarter over quarter, was a shift in production from North American markets measured on a gross ("nominal") volume basis to export markets measured on a net volume basis. In the fourth quarter of 2023 we curtailed certain sawmill operations to match production to market demand and manage inventory levels. A higher specialty mix of production led to increased value-added processing volumes and costs as compared to the fourth quarter of 2022.

We harvested 718,000 cubic metres of logs from our BC coastal operations in the fourth quarter of 2023, as compared to 658,000 cubic metres in the same period last year. Log harvest was reduced in the fourth quarter of 2022 to more closely match log volumes to our sawmill requirements.

Timberlands operating costs per cubic metre decreased 20% compared to the same period last year primarily due to lower stumpage rates.

BC Coastal sawlog purchases were 200,000 cubic metres in the fourth quarter of 2023, as compared to 173,000 cubic metres in the same period last year. We managed sawlog purchases to match mill fibre requirements.

Freight expense was $16.3 million in the fourth quarter of 2023 as compared to $19.7 million in the same period last year. The decrease of 17% was due to lower lumber shipments and reduced container and trucking rates, partially offset by higher-cost breakbulk vessels to Japan in the fourth quarter of 2023 and a stronger USD to CAD average exchange rate.

Adjusted EBITDA and operating loss included $4.1 million of countervailing duty ("CV") and anti-dumping duty ("AD") expense in the fourth quarter of 2023, as compared to $4.7 million in the same period of 2022. Export tax expense declined due to lower duty rates, lumber prices and US-destined lumber shipment volumes, partially offset by the stronger USD.

Corporate and Other

Selling and administration expense was $10.8 million in the fourth quarter of 2023 as compared to $10.5 million in the same period last year.

Restructuring costs were $0.9 million in the fourth quarter of 2023 for retirement and other benefits related to rightsizing of various operational functions within our business. The $3.9 million in restructuring costs in the comparative period of 2022 consisted of $2.0 million in environmental provisions and $1.9 million in retirement and other benefits.

Other expense was $2.5 million in the fourth quarter of 2023 as compared to $2.0 million in the same period last year, resulting primarily from higher unrealized foreign exchange losses on revaluation of our export tax receivable.

Finance costs were $1.8 million in the fourth quarter of 2023 as compared to finance income of $0.1 million in the same period last year. Interest expense on higher average borrowings and interest rates were partially offset by interest revenue from the export tax receivable.

Income Taxes

Income tax recovery was $5.3 million on a net loss before tax of $19.6 million in the fourth quarter of 2023, as compared to income tax expense of $8.0 million on income before tax of $29.4 million in the same period last year.

Net Loss

Net loss was $14.3 million in the fourth quarter of 2023, as compared to $21.4 million for the same period last year. Lower stumpage, freight and export tax rates partially offset the impact of lower lumber demand and product prices quarter over quarter.

Summary of Annual 2023 Results

We reported Adjusted EBITDA of negative $29.9 million for 2023, as compared to positive Adjusted EBITDA of $136.9 million for the same period last year. Results in 2023 reflect more challenging macroeconomic conditions, as compared to the same period last year.

Net loss was $70.1 million for 2023, as compared to net income of $61.8 million for the same period last year. Operating loss prior to restructuring and other items was $83.4 million in 2023, as compared to income of $86.7 million in the same period last year.

Sales

Lumber revenue was $781.6 million in 2023 as compared to $1,152.5 million in the same period last year. The decrease of 32% was due to lower lumber shipment volumes and lower average prices, partially offset by a stronger sales mix and stronger USD to CAD average exchange rate. Our average realized lumber price decreased by 17% to $1,329 per thousand board feet in 2023, as compared to $1,609 per thousand board feet in the same period last year.

Speciality lumber shipments represented 51% of total lumber shipment volumes in 2023, as compared to 44% in the same period last year, yielding a stronger sales mix. Cedar lumber shipments decreased 9% compared to the same period last year as buyers managed inventory levels to market conditions. Japan lumber shipment volumes decreased 10% compared to the same period last year due to increased supply from Japan, Europe and Russia. Domestic supply in Japan declined in the fourth quarter of 2023 due to a fire-related curtailment at one of Japan’s largest sawmills. Industrial lumber shipment volumes increased 15% compared to the same period last year, benefitting from a full year from our Calvert engineered wood products division and growth in Douglas fir timbers. Commodity lumber shipments decreased 29% compared to the same period last year due to weaker market demand.

Log revenue was $180.9 million in 2023, as compared to $230.9 million in the same period last year. The decrease of 22% was due to lower average domestic log prices, partially offset by higher log sales volume.

By-product and other revenue were $55.0 million in 2023 as compared to $60.6 million in the same period last year. The decrease of 9% was due to lower chip prices and lower chip volumes as the result of reduced sawmill production, partially offset by higher revenue from harvesting services provided to third parties.

Operations

Lumber production was 561 million board feet in 2023, as compared to 655 million board feet in the same period last year. Contributing to this reduction, year over year, was a shift in production from North American markets measured on a gross ("nominal") volume basis to export markets measured on a net volume basis. During 2023 we took operating curtailments at certain sawmills to match production to market demand and manage inventory. We also did not operate our Alberni Pacific Division ("APD") facility in 2023, which had lumber production of 27 million board feet in 2022.

We harvested 3.0 million cubic metres of logs from our BC coastal operations in 2023, comparable to 3.1 million cubic metres harvested in the same period last year. Harvest volumes were managed to market conditions to match log supply to mill requirements.

Timberlands operating costs per cubic metre decreased by 18% compared to the same period last year due to lower stumpage rates.

BC Coastal sawlog purchases were 0.7 million cubic metres in 2023, as compared to 1.1 million cubic metres in the same period last year. We managed sawlog purchases to match fibre requirements at our BC manufacturing facilities.

Freight expense was $75.6 million in 2023 as compared to $102.4 million in the same period last year. The decrease of 26% was due to lower lumber shipments, proportionately lower export-destined lumber shipments, and reduced container and trucking rates, partially offset by the stronger USD. Additionally, global logistics challenges in 2022 constrained container availability in that period and necessitated the use of higher cost breakbulk vessels to Japan.

Adjusted EBITDA and operating loss included $15.9 million of CV and AD expense in 2023, as compared to $20.9 million in the same period of 2022. In 2023, we recognized a recovery of $4.3 million on the finalization of duty rates from 8.99% to 8.05% for shipments made in 2021. The comparative period of 2022 included a recovery of $18.0 million on the finalization of duty rates from 20.23% to 8.59% for shipments made in 2020. Excluding recognition of recoveries on finalization of duty rates, export tax expense declined due to lower average duty rates, lumber prices and US-destined lumber shipment volumes, partially offset by the stronger USD.

Corporate and Other

Selling and administration expense was $42.8 million in 2023 as compared to $44.5 million in the same period last year, primarily on reduced incentive compensation resulting from declines in earnings and share price year-over-year, partially offsetting increased infrastructure costs.

Restructuring costs were $7.5 million in 2023 for retirement and other benefits related to our APD facility and rightsizing of various operational functions within our business. In 2022 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.

Other expense was $1.2 million in 2023 as compared to income of $2.1 million in the same period last year. Unrealized foreign exchange losses on revaluation of a higher export tax receivable resulted from a 2% depreciation of the closing US to Canadian Dollar exchange rate in 2023 as compared to gains on a 7% appreciation in closing exchange rates in the comparable period of 2022.

Finance costs were $3.0 million in 2023 as compared to finance income of $0.1 million in the same period last year. Interest expense on higher average borrowings and interest rates were partially offset by revenue from the export tax receivable.

Income Taxes

Income tax recovery was $25.0 million on a net loss before tax of $95.1 million in 2023, as compared to an expense of $22.6 million on income before tax of $84.4 million in the same period last year.

Net Income (Loss)

Net loss was $70.1 million in 2023 as compared to net income of $61.8 million for the same period of last year. More challenging macroeconomic conditions during 2023 resulted in lower lumber demand and product prices and impacted results year over year.

Accelerating the Transition to Higher Value Products

In support of the Company's key strategic priorities, including optimizing our business platform and growing our value-added, specialty and engineered wood products business, the Company is moving forward with two new continuous kilns, one at its Duke Point sawmill and one at its Value-Added Division. Each of the new kilns will have an annual capacity of approximately 70 million board feet and will support increased kiln dried products for our Industrial lumber segment.

These investments are part of a broader comprehensive strategy that the Company is pursuing in relation to its BC Coastal manufacturing operations to identify opportunities to modernize our primary manufacturing facilities, increase our kiln drying and planing capacity, reduce our cost structure and expand our engineered wood products and remanufacturing capacity.

The Company will continue to evaluate any potential future investment opportunities with a long-term view of supporting our overall business. Any potential future investments will consider the operating environment, our business and labour partnerships, and our financial condition, cash requirements and other financial metrics that we may deem relevant.

BC Operations Strategic Investments Update

Western continues to make progress on our previously announced strategic investments. All projects remain on budget and are expected to be completed by mid-2024.

- A $12.3 million continuous kiln at the Saltair sawmill is in the construction phase with $11.2 million in spending completed through December 31, 2023. Commissioning is anticipated in first quarter of 2024. Once the kiln is operational, the Company will qualify for a $1.5 million energy rebate resulting from installation of more energy efficient equipment;
- Capital expenditures for optimization of a centralized planer and installation of a machine stress rate ("MSR") grader at the Duke Point facility total $9.2 million through December 31, 2023, including installation of the MSR grader, which is complete; and
- Other strategic investments with expenditures to date totalling $7.5 million, with most projects complete.

Alberni Pacific Division

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

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 initiatives. 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 recent years 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.

Forest Landscape Plan Pilot with 'Namgis First Nation

On September 23, 2021, together with the 'Namgis First Nation, we announced the launch of the TFL 37 Forest Landscape Plan ("FLP") Pilot project to guide collaborative decision-making and for the joint development of an innovative and progressive plan to sustainably manage TFL 37.

The three forest areas covered by the plan and located in 'Namgis Territory include the area-based tenure managed by Western, a replaceable forest licence managed by a ‘Namgis-owned corporation, and the operating area of the Danyas Limited Partnership, a forestry limited partnership established by ‘Namgis and Western in 2015.

The development of the FLP is supported by the BC Government as a formal pilot project to inform amendments to the Province’s *Forest and Range Practices Act*.

Integrated Resource Management Plan (“IRMP”) with Nanwakolas Council and TFL 39 Block 2 Transaction

On January 19, 2022, Western and the Nanwakolas Council, representing Tlowitsis, K’ómoks, Wei Wai Kum and We Wai Kai First Nations (the “Nations”), announced the Joint Planning and Reconciliation Agreement, which includes the development of an Indigenous-led IRMP that would guide forest management in TFL 39 Block 2. The IRMP is 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.

On October 23, 2023, Western and the Nations announced an agreement for the Nations to acquire a 34% interest from Western in a newly formed limited partnership (“Mid-Island Partnership”) for $35.9 million.

The Mid-Island Partnership will consist of certain assets and liabilities of Western’s Mid Island Forest Operation, including Block 2 of TFL 39. The Mid-Island Partnership’s operations will cover approximately 157,000 hectares of forest land in the traditional territories of the Nations near the communities of Campbell River and Sayward on eastern Vancouver Island. The Mid-Island Partnership will manage an allowable annual cut (“AAC”) of 904,540 cubic metres of timber and includes a long-term fibre agreement to support Western’s BC coastal manufacturing operations. The Mid-Island Partnership and acquisition by the Nations is subject to various closing conditions, including subdivision and tenure transfer approvals from the BC Ministry of Forests. Western and the Nations are working towards closing the acquisition in the first quarter of 2024.

Service Contract Agreement and Forest Resource Plan with Tla’amin Nation in TFL 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. These initiatives are in addition to the planned development of a 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 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.

Tsawak-qin Forestry Limited Partnership and IRMPs with Huu-ay-aht First Nations and TFL 44-Area First Nations

Our relationship with Huu-ay-aht First Nations (“HFN”) has grown through development of mutually beneficial agreements, including the sale of our former Sarita Dryland Sort assets in 2017, various timber purchase, 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 Huumiis Ventures Limited Partnership (“HVLP”), a limited partnership beneficially owned by HFN) joint ownership interest in Tsawak-qin Forestry Limited Partnership (“TFLP”). TFLP’s assets consist of Tree Farm Licence 44 and certain other associated assets and liabilities of our former Port Alberni Forest Operation. HVLP’s current equity interest in TFLP is 35%.

In 2021, Western began the co-development of the HFN-led Hišuk ma c̓awak Integrated Resource Management Plan (“HIRMP”), a plan covering the HFN territory including portions of TFL 44, which is anticipated to be completed in March 2024. A TFL 44-wide IRMP that will incorporate Nation-led plans like the HIRMP into a single plan for the TFL, is also underway and expected to be complete by March 2025.

Regulatory Environment

Since 2020, the Province of BC (“the Province”) has introduced various policy initiatives and regulatory changes that impact the BC forest sector, including: fibre recovery, lumber remanufacturing, old growth forest management, forest stewardship and the exportation of logs. For additional details on these policy initiatives, regulatory changes and risks, please see “*Regulatory 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 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.

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 and 2023 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 existing conservation measures or not planned for harvesting during the two year deferral period.

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 HIRMP is anticipated to be completed in March 2024. On January 19, 2022, Western and the Nations announced an agreement to work on a joint approach that would guide forest management 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 following 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 Na̲nwak̲olas Council and Western. These temporary deferral areas represent approximately 1% of the total area of TFL 39 Block 2.

Forest and Range Practices Act and Regulation 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 amendments align with Western's increasing use of IRMPs for the joint planning of long-term, sustainable forest management with First Nations.

In June 2023, the Province announced amendments to the *Forest Planning and Practices Regulation*. The amendments introduced new regulations which require forest licence holders to publish forest operations maps for public feedback, and amended existing regulations which enhance protection for ecological and recreational values.

Timber Tenure Replacements and Reduction

Approximately 89% of Western's 5,763,000 cubic metre sustainable AAC is in the form of TFLs. TFLs are granted for 25-year terms and the Province is required to offer a replacement TFL 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 but have not yet been replaced by the Ministry. The Ministry continues to consult 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.

TFL 44

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

The TFL 44 licence is held by TFLP, a limited partnership between Western and HVLP. The Company and TFLP strongly oppose the AAC determination and the allocation of unharvested volume to new forest licences in light of concerns that the allocation significantly affected the AAC determination. TFLP is discussing these concerns with the Province, and thus the Company is unable to assess the potential impact of this AAC determination on the Company's business at this time.

TFL 19

We expect the Provincial Chief Forester to determine a new AAC for TFL 19 in 2024. While we cannot predict the outcome of the determination, the Management Plan that we submitted in 2020, recommended an 18% lower AAC (approximately 130,000 cubic metres), consistent with the timber supply forecasts from previous Management Plans. Since the draft Management Plan was submitted, a number of policy and landbase changes have come into effect, including the declaration of a new protected area, referred to as "Salmon Parks", by the Mowachaht/Muchalaht First Nation. The Company is unable to determine the potential impact of these changes on the Company's business at this time.

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

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

Other BC Government Forest Policies and Initiatives

In February 2023, the Province announced eight new regional Forest Landscape Planning ("FLP") tables throughout BC with the participation of approximately 50 First Nations. The Province's stated objective of these FLP tables is to provide greater clarity around the long-term, sustainable harvesting activities in the areas identified.

In June 2023, the Province passed regulations associated with the previously announced Bill 28, *Forest Amendment Act, 2021,* which is considered enabling legislation for the redistribution of harvest rights. These recently passed regulations pertain to compensation for lost harvesting rights as a result of such redistribution. Western is not able to assess the impact of these regulatory changes on its business at this time.

In October 2023, the Province introduced Bill 41, *Forests Statutes Amendment Act, 2023*, which, among other things, modifies the existing mechanism for tenure holders applying for and obtaining cutting permits and makes amendments to the provisions governing the Minister of Forest's obligation to offer replacements for replaceable forest tenures.

In November 2023, the Province released a draft "*BC Biodiversity and Ecosystem Health Framework*". The document outlines a high-level description of proposed outcomes, principles and coordination between various processes and initiatives. It proposes the establishment of an Office of Biodiversity and Ecosystem Health to lead development of objectives and standards.

In January 2024, the Province announced that it intends to make amendments to the *Land Act* to enable agreements between the Province and Indigenous governing bodies to share decision-making about public land use under the *Land Act*. These amendments are expected to be introduced in the first half of 2024. The Company utilizes land tenures issued pursuant to the Land Act in its operations, and is not able to assess the impact of the potential *Land Act* amendments on the Company's business at this time.

Financial Position and Liquidity [1]

(millions of Canadian dollars except where otherwise noted)

Selected Cash Flow Items	Q4 2023	Q4 2022	Q3 2023	Annual 2023	Annual 2022
Operating activities					
Net income (loss)	$ (14.3)	$ (21.4)	$ (17.4)	$ (70.1)	$ 61.8
Amortization	13.3	12.0	14.1	53.7	50.2
Loss (gain) on disposal of property, equipment and other assets	0.5	0.7	(0.2)	0.2	(0.6)
Income tax expense (recovery)	(5.3)	(8.0)	(6.5)	(25.0)	22.6
Income tax receipts (payments)	0.4	(2.1)	(0.1)	15.4	(93.9)
Share-based compensation	(0.6)	(0.6)	(1.1)	(1.2)	(1.8)
Export tax receivable	-	-	(4.3)	(4.3)	(18.0)
Other	1.8	2.0	1.1	1.2	(5.0)
	(4.2)	(17.4)	(14.4)	(30.1)	15.3
Change in non-cash working capital	3.4	25.1	0.3	(3.7)	(25.6)
Cash provided by (used in) operating activities	(0.8)	7.7	(14.1)	(33.8)	(10.3)
Investing activities					
Additions to property, plant and equipment	(14.9)	(15.4)	(5.1)	(34.1)	(32.6)
Additions to capital logging roads	(2.3)	(2.7)	(3.0)	(10.3)	(11.7)
Proceeds on disposal of property, equipment and other	-	0.3	0.1	2.2	2.7
Acquisition of Calvert net assets	-	-	-	-	(16.1)
Insurance proceeds	-	-	4.7	4.7	-
Loans and advances	0.1	-	0.1	(1.1)	-
Deposits	-	(0.2)	-	-	(2.2)
Cash used in investing activities	(17.1)	(18.0)	(3.2)	(38.6)	(59.9)
Financing activities					
Drawings on credit facility	21.8	-	25.2	84.0	-
Bank indebtedness	0.4	-	(0.5)	0.9	-
Dividends	-	(3.9)	(4.0)	(11.9)	(15.3)
Share repurchases	-	(3.0)	-	-	(20.3)
Lease payments	(2.4)	(2.1)	(2.7)	(9.5)	(7.5)
Other	(2.6)	(0.3)	(0.9)	(4.6)	(0.9)
Cash provided by (used in) financing activities	17.2	(9.3)	17.1	58.9	(44.0)
Increase (decrease) in cash	$ (0.7)	$ (19.6)	$ (0.2)	$ (13.5)	$ (114.2)

Summary of Financial Position	Q4 2023	Q4 2022	Q3 2023
Cash and cash equivalents	$ 2.3	$ 15.8	$ 3.0
Current assets	334.9	339.8	314.6
Current liabilities	121.0	125.8	103.3
Bank indebtedness	0.9	-	0.5
Long-term debt	83.8	-	62.0
Net debt (cash) [2]	82.4	(15.8)	59.5
Equity, excluding non-controlling interest	565.0	647.2	580.3
Total liquidity [3][6]	147.8	249.8	170.2
Financial ratios			
Current assets to current liabilities [4]	2.77	2.70	3.05
Net debt to capitalization [5][6]	13%	-	9%

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

Cash used in operating activities was $33.8 million in 2023, as compared to $10.3 million in the same period last year due to more challenging macroeconomic conditions, resulting in weaker demand and lower product prices. Lower product prices resulted in compressed margins and reduced cash generated from operations in 2023. In 2023, we received income tax refunds of $15.4 million, as compared to income tax payments of $93.9 million in the comparative period.

Cash used in investing activities was $38.6 million in 2023, as compared to $59.9 million in the same period last year which included the acquisition of Calvert for $16.1 million. In 2023, the Company received $4.7 million in life insurance proceeds, arising from a predecessor company arrangement.

Cash provided by financing activities was $58.9 million in 2023 as compared to cash used of $44.0 million in the same period last year. The Company returned $11.9 million ($0.0375 per share) to shareholders through dividends in 2023 as compared to $15.3 million ($0.475 per share) through dividends and $20.3 million in share repurchases in the same period last year. The Company drew $84.0 million on its credit facility in 2023, while no drawings were required in 2022.

Liquidity and Capital Resources

Total liquidity was $147.8 million at December 31, 2023, as compared to $249.8 million at the end of the prior year. Liquidity is comprised of cash and cash equivalents of $2.3 million, and unused availability under the credit facility of $146.4 million, less $0.9 million of bank indebtedness. The Company's income tax receivable of $23.5 million at December 31, 2023 will be received in 2024.

The Company's syndicated Credit Facility (the "Credit Facility") provides for a maximum borrowing amount of $250 million and includes an accordion feature which allows the Company to increase the aggregate amount available to $350 million, subject to lender approval. The maturity date of the Credit Facility is July 21, 2025. The Credit Facility is subject to certain financial covenants, including a maximum debt to total capitalization ratio. On June 29, 2023, certain financial covenants were amended for administrative purposes.

Based on our current forecasts, we expect sufficient liquidity will be available to meet any commitments as well as our other obligations through 2024. The Company was in compliance with its financial covenants as at December 31, 2023.

Summary of Contractual Obligations

The following table summarizes our contractual and legal obligations at December 31, 2023, and our payments due for each of the next five years and thereafter, including estimated interest payments:

(millions of Canadian dollars)	**Total**	**2024**	**2025**	**2026**	**2027**	**2028**	**Thereafter**
Bank indebtedness	$ 0.9	$ 0.9	$ -	$ -	$ -	$ -	$ -
Accounts payable and accrued liabilities (1)	98.7	98.7	-	-	-	-	-
Purchase commitments	17.1	17.1	-	-	-	-	-
Income taxes payable	0.2	0.2	-	-	-	-	-
Long-term debt	96.4	8.0	88.4	-	-	-	-
Lease liabilities (2)	21.9	8.1	5.8	4.2	1.3	0.7	1.8
Reforestation obligation	24.5	8.1	4.1	2.6	1.8	1.4	6.5
Defined benefit pension plan funding payments	5.6	0.7	0.7	0.7	0.7	0.7	2.1
Other (1)	10.8	4.1	2.0	1.5	-	0.8	2.4
	$ 276.1	$ 145.9	$ 101.0	$ 9.0	$ 3.8	$ 3.6	$ 12.8

(1) Accounts payable and accrued liabilities presented net of current portion of Other

(2) Includes liabilities directly associated with assets held for sale

Dividend and Capital Allocation

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

Quarterly Dividend

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

No dividends were paid in the fourth quarter of 2023, with $11.9 million paid in the twelve months ending December 31, 2023, as compared to $3.9 million and $15.3 million in the three and twelve months ending December 31, 2022.

Normal Course Issuer Bid ("NCIB")

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

During the twelve months ended December 31, 2023, no common shares were repurchased.

Market Outlook

Near-term lumber markets are expected to remain variable, but we remain cautiously optimistic as we head into the typically more active spring building season in North America. Consumers are adjusting to higher interest rates and the potential for interest rate cuts in Canada and the United States could help support modest increases in buyer activity as we progress through the year.

Demand and prices for Cedar timber and premium appearance products are expected to remain stable. Demand and price for Cedar decking products should firm up as we head into the spring, while demand for Cedar trim and fencing products is expected to remain soft until market inventory rebalances.

In Japan, we anticipate quarterly lumber volumes to remain near those achieved in the fourth quarter of 2023, given domestic Japanese production has been impacted by a prolonged, fire-related operating curtailment at a large Japanese sawmill. We anticipate lumber prices in Japan to modestly improve during 2024.

Demand for our Industrial lumber products will be product line specific but are expected to remain stable over the near-term. North American demand and prices for our commodity products should marginally improve in the first quarter of 2024, but are expected to remain volatile through 2024. In China, lumber demand and prices are expected to marginally improve.

We expect sawlog markets to follow conditions in the lumber markets, while residual chip pricing is expected to remain stable and will follow the northern bleached softwood kraft price to China.

Softwood Lumber Dispute

The US application of duties continues a long-standing pattern of US protectionist action against Canadian lumber producers. For a comprehensive history of the softwood lumber trade dispute and related North American Free Trade Agreement ("NAFTA") challenge proceedings, please see "*Risks and Uncertainties – Softwood Lumber Dispute"*.

During 2023, Western expensed $20.2 million of export duties at a combined duty rate of 8.59% on its lumber shipments into the US until August 1, 2023, and at 8.05% thereafter as compared to an expense of $38.9 million of export duties at a combined rate 17.91% until August 8, 2022, and at 8.59% thereafter for the same period last year. The effect of lower duty rates and a 20% decline in the Company's US-destined lumber shipment volumes were slightly offset by the 4% appreciation of the average US to Canadian dollar exchange rate over these periods.

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

As at December 31, 2023, Western had $219 million (USD $165.5 million) of cash on deposit with the US Department of Treasury in respect of these softwood lumber duties, of which $61.7 million (USD $46.6 million) is recognized in the Company's consolidated statement of financial position arising from final rate determinations for Canadian shipments made to the US in 2017 through 2021.

Including wholesale lumber shipments, our sales from Canadian operations to the US market represented approximately 25% of our total lumber shipments during 2023.

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

On January 17, 2024, the Government of Canada filed a notice of intent to challenge the ITC decision to maintain duties on Canadian softwood lumber products, under Chapter 10 of the Canada-United States-Mexico Agreement.

On February 1, 2024, the DoC released its preliminary determination for CV and AD rates resulting from its fifth AR of CV and AD rates for shipments in 2022, indicating a combined rate of 13.86%. The DoC may revise these rates between the preliminary and the final determination, expected to be released in the third quarter of 2024. Cash deposits continue at the combined duty rate of 8.05% until the final determinations are published, after which the 2022 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*".

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

Non-GAAP Financial Measures

Reference is made in this MD&A to the following non-GAAP measures: Adjusted EBITDA, Adjusted EBITDA margin, net debt to capitalization, 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 2023**	**Q4 2022**	**Q3 2023**	**Annual 2023**	**Annual 2022**	**Annual 2021**
Net income (loss)	$ (14.3)	$ (21.4)	$ (17.4)	$ (70.1)	$ 61.8	$ 202.8
Add:						
Amortization	13.3	12.0	14.1	53.7	50.2	50.9
Changes in fair value of biological assets	-	(0.2)	-	(0.2)	0.1	3.7
Operating restructuring items	0.9	3.9	(0.2)	7.5	4.5	2.7
Other expense (income)	2.5	2.0	(2.2)	1.2	(2.1)	(22.4)
Finance costs (income)	1.8	(0.1)	0.5	3.0	(0.1)	1.9
Income tax expense (recovery)	(5.3)	(8.0)	(6.5)	(25.0)	22.6	62.4
Adjusted EBITDA	$ (1.2)	$ (11.9)	$ (11.6)	$ (29.9)	$ 136.9	$ 302.1
Adjusted EBITDA margin						
Total revenue	$ 246.6	$ 291.0	$ 231.1	$ 1,017.5	$ 1,444.0	$ 1,417.7
Adjusted EBITDA	(1.2)	(11.9)	(11.6)	(29.9)	136.9	302.1
Adjusted EBITDA margin	(0%)	(4%)	(5%)	(3%)	9%	21%

Net debt to capitalization	**Dec. 31, 2023**	**Dec. 31, 2022**	**Dec. 31, 2021**
Net debt			
Total debt	$ 83.8	$ -	$ -
Bank indebtedness	0.9	-	-
Cash and cash equivalents	(2.3)	(15.8)	(130.0)
	$ 82.4	$ (15.8)	$ (130.0)
Capitalization			
Net debt (cash)	$ 82.4	$ (15.8)	$ (130.0)
Total equity attributable to equity shareholders of the Company	565.0	647.2	612.1
	$ 647.4	$ 631.4	$ 482.1
Net debt to capitalization	13%	-	-

Total liquidity	**Dec. 31, 2023**	**Dec. 31, 2022**	**Dec. 31, 2021**
Cash and cash equivalents	$ 2.3	$ 15.8	$ 130.0
Available credit facility	250.0	250.0	250.0
Bank indebtedness	(0.9)	-	-
Credit facility drawings	(84.0)	-	-
Outstanding letters of credit	(19.6)	(16.0)	(8.6)
	$ 147.8	$ 249.8	$ 371.4

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	2023	2022	2021
Trade and other receivables	$ 50.9	$ 60.5	$ 57.4
Inventory	213.5	224.8	207.2
Prepaid expenses and other assets	33.9	21.3	16.4
Property, plant and equipment	354.4	364.7	343.2
Timber licences	92.3	96.3	100.3
Biological assets	49.3	49.1	49.1
Other assets	77.4	75.7	55.2
Goodwill	6.9	7.0	-
	878.6	899.4	828.8
Less:			
Duty receivable and related interest	70.8	63.7	40.4
Accounts payable and accrued liabilities	102.8	108.5	112.8
Current portion of lease liabilities	6.9	6.8	5.5
Current portion of reforestation obligation	7.9	8.3	9.9
Current portion of deferred revenue	2.0	2.0	2.0
	190.4	189.3	170.6
Net capital employed as at December 31	688.2	710.1	658.2
Net capital employed as at January 1	710.1	658.2	687.3
Average capital employed	$ 699.2	$ 684.2	$ 672.8
Adjusted EBITDA divided by average capital employed	(4%)	20%	45%

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, lumber and engineered wood products 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, 2023 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 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 2023, 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, 2023, the Company had forward contracts in place to sell an aggregate USD $13.0 million (2022: USD $16.0 million). An asset of negligible amount (2022: $0.1 million) was recognized in relation to foreign exchange forward contracts outstanding as at December 31, 2023 which is included in trade and other receivables in the consolidated statement of financial position. A net gain of $1.2 million was recognized on contracts that matured during the year (2022: net loss of $1.8 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, 2023, surety performance and payment bonds aggregated $49.7 million (December 31, 2022: $47.8 million), of which $18.6 million (December 31, 2022: $14.9 million) are secured by letters of credit. 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,	
	2023	**2022**
Salaries, directors' fees and short-term benefits	$ 6.2	$ 10.0
Post-employment benefits	0.9	0.9
Share-based compensation, including mark-to-market adjustment	(0.4)	(1.7)
	$ 6.7	$ 9.2

Reduced net income and share price in 2023 resulted in the decline in compensation paid to related parties as compared to 2022.

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 2023 or 2022 and does not expect to export logs in 2024.

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 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 in recent years 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.

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- 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.
- 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 was extended. The Province is expected to release a multi-year action plan soon.
- 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. In June 2023, the Province passed regulations pertaining to compensation for lost harvesting rights as a result of such redistribution.
- 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 'Na̱mg̱is First Nation and Western continue their work on the TFL 37 FLP 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 in first half of 2024.
- On January 25, 2022, the Province announced that it was 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 is expected to be implemented starting in 2024.
- In February 2023, the Province announced eight new regional FLP tables throughout BC with the participation of approximately 50 First Nations. The Province's stated objective of these FLP tables is to provide greater clarity around the long-term, sustainable harvesting activities in the areas identified.
- In June 2023, the Province announced amendments to the *Forest Planning and Practices Regulation*. The amendments introduced new regulations which require forest licence holders to publish forest operations maps for public feedback, and amended existing regulations which enhance protection for ecological and recreational values.
- On June 26, 2023, the Province announced it had set a new AAC for TFL 44, reducing the AAC from 793,600 cubic metres to 642,800 cubic metres. The new AAC was effective immediately and reflects harvest reductions associated with forest resources and socio-economic objectives of the Province, including the reallocation of previously unharvested volume to new forest licences.
- In October 2023, the Province introduced Bill 41, *Forests Statutes Amendment Act*, 2023, which among other things, modifies the existing mechanism for applying for and obtaining cutting permits and makes amendments to the provisions governing the Minister of Forest's obligation to offer replacements for replaceable forest tenures.
- On November 3, 2023, the Government of Canada, the Province and the First Nations Leadership Council announced the signing of the Nature Agreement, which extends through March 2030, and is intended to further conserve and protect land and water, species and biodiversity in BC. The Nature Agreement includes up to $1 billion in government funding in support of the Government of Canada's goal to protect 30% of Canada's terrestrial and aquatic ecosystems by 2030.

- In November 2023, the Province released a draft "BC Biodiversity and Ecosystem Health Framework". The document outlines a high-level description of proposed outcomes, principles and coordination between various processes and initiatives. It proposes the establishment of an Office of Biodiversity and Ecosystem Health to lead development of objectives and standards.
- In January 2024, the Province announced that it intends to make amendments to the *Land Act* to enable agreements between the Province and Indigenous governing bodies to share decision-making about public land use under the *Land Act*. These amendments are expected to be introduced in the first half of 2024.
- In 2024, we expect the Provincial Chief Forester will issue a determination on the AAC for TFL 19. Western has submitted a draft Management Plan to support the determination decision. Since the draft Management Plan was submitted, a number of policy and landbase changes have come into effect, including the declaration of a new protected area, referred to as "Salmon Parks", by the Mowachaht/Muchalaht First Nation.

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

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 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, 2024. Stumpage rates are also adjusted monthly 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 ("Nuchatlaht") filed a Notice of Civil Claim with the British Columbia Supreme Court ("BCSC") against Canada, the Province and the Company, seeking a declaration of Aboriginal title to a claim area that encompasses approximately 201km^2 of the northern half of Nootka Island (the "Claim Area") 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. On May 11, 2023, the BCSC released its decision that Nuchatlaht had not proved its claim for Aboriginal title to the overall Claim Area. In doing so, the BCSC left open the possibility of Nuchatlaht establishing Aboriginal title to various specific sites within the Claim Area through the current action. It is not known whether Nuchatlaht will pursue an Aboriginal title claim to specific sites within the Claim Area and/or appeal the BCSC's decision and, accordingly, the potential impact of the *Nuchatlaht* decision on Western's tenure holdings is not ascertainable at this time.
- 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. This matter has not yet proceeded to trial.

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 2024. 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 the Canadian operations also incur some USD–denominated expenses, primarily for ocean freight and other transportation, and for CV and AD duties, most expenses are incurred in CAD. The Company's operations in the US transact primarily in USD. 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.

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.

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

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

Employees and Labour Relations

Hourly paid employees at our Canadian manufacturing facilities and timber harvesting operations are unionized. The majority of the unionized employees are represented by the USW. Approximately 1,129 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.

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 US.

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 2021, the Company recognized a long-term interest-bearing duty receivable totalling USD$53.4 million (CAD$70.8 million), of which USD$3.5 million (CAD$4.3 million) was recognized as an export tax recovery in 2023. This recovery was netted against export tax expense of $20.2 million, resulting in a net export tax of $15.9 million.

Under US law, the DoC and US International Trade Commission ("USITC") are required to conduct a sunset review 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. The sunset review was initiated on December 1, 2022.

On March 27 and April 3, 2023, the DoC issued the final results of its first sunset review of the CV and AD orders, respectively, concluding that if duties on Canadian softwood lumber products were revoked, there would likely be a continuation or recurrence of countervailable subsidies and dumping.

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

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

On November 30, 2023, the USITC issued its final determination under the sunset review, concurring with the DoC conclusion. The USITC filed its final determination in the Federal Register on December 21, 2023, resulting in a continuation of the CV and AD orders.

On January 17, 2024, the Government of Canada filed a notice of intent to challenge the ITC decision to maintain duties on Canadian softwood lumber products, under Chapter 10 of the Canada-United States-Mexico Agreement.

On February 1, 2024, the DoC released its preliminary determination for CV and AD rates resulting from its fifth AR of CV and AD rates for shipments in 2022, indicating a combined rate of 13.86%. The DoC may revise these rates between the preliminary and the final determination, expected to be released in the third quarter of 2024. Cash deposits continue at the combined duty rate of 8.05% until the final determinations are published, after which the 2022 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 2021 and preliminary rates for 2022:

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

Lumber shipment year	AR5 2022 Preliminary	AR4 2021 Final	AR3 2020 Final	AR2 2019 Final	AR1 2018 Final	AR1 2017 Final
Duty rate						
CV	6.71%	1.79%	3.83%	6.32%	7.42%	7.26%
AD	7.15%	6.26%	4.76%	11.59%	1.57%	1.57%
Combined	13.86%	8.05%	8.59%	17.91%	8.99%	8.83%

At December 31, 2023, including interest of USD$6.8 million (2022: USD$4.0 million), the duty receivable of USD$53.4 million (2022: USD$47.0 million) was revalued at the year-end exchange rate to CAD$70.8 million (2022: CAD$63.7 million).

As at December 31, 2023, the Company had paid $219 million of duties, all of which remain held in trust by US Department of Treasury (2022: $203 million). With the exception of USD$46.6 million (CAD$61.7 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 US 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.

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.

Forest Resource Risk, Natural Catastrophes and Climate Change

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

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

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

Climate change over time is predicted to lead to changes in the frequency of storm events as well as their severity.

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

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

Transportation

The Company depends on third parties for transportation of its products and raw materials, a significant portion of which are transported by tugs and barges, trucks, railways, and ships. If any of Western's third-party transportation providers were to fail to deliver the raw materials or products or distribute them in a timely manner, including due to seasonal factors, Western may not be able to manufacture its products or sell those products at full value, which could have a material adverse effect on the Company's financial condition and operating results. In addition, if any of these third parties were to cease operations, suffer labour-related disruptions, or cease doing business with Western, the Company's operations or cost structure may be adversely impacted.

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.

Public Health Crisis

The existence of a widespread public health crisis, such as COVID-19, could materially impact our business, financial condition, and results of the Company’s operations. This impact arises from various factors including, but not limited to, the pandemic's duration and its severity, government measures and restrictions, changes in global economic activity, the business and operations of our customers, suppliers, and service providers, and the availability and effectiveness of vaccines. Adverse effects may manifest as labour shortages, interruptions in shipping and product delivery, supplier and service provider delays or disruptions, increased cybersecurity risks, and direct impacts on our operations and employees. These factors collectively contribute to potential fluctuations in demand and pricing for our products, as well as significant changes in our revenues, costs, cash flow, and liquidity. Additionally, virus mutations or new information about the virus's spread and severity could further influence these outcomes.

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 declare and pay dividends, even if necessary financial conditions are met and sufficient cash is available for distribution.

Evaluation of Disclosure Controls and Procedures

As required by National Instrument 52-109, *Certification of Disclosure in Issuers’ Annual and Interim Filings*, Western conducted an evaluation of the effectiveness of the disclosure controls and procedures and the system of internal control over financial reporting based on the “Internal Control – Integrated Framework” issued by the Committee of Sponsoring Organizations of the Treadway Commission. Based on this evaluation, management concluded that the Company’s system of internal control over financial reporting was effective as at December 31, 2023.

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.

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, 2023.

Outstanding Share Data

As of February 13, 2024, there were 316,745,557 Common Shares of the Company issued and outstanding.

We have reserved 30,000,000 of our Shares for issuance upon the exercise of options granted under our incentive stock option plan. During the year ended December 31, 2023, no options were granted, 400,000 previously granted options were exercised, 1,000,000 options expired and 2,246,778 options were forfeited. As of February 13, 2024, 11,486,679 options were outstanding under our incentive stock option plan.

Additional Information

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

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

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

			2023					2022			
		2023	**Q4**	**Q3**	**Q2**	**Q1**	**2022**	**Q4**	**Q3**	**Q2**	**Q1**
Avg. exchange rate – USD to CAD		**1.350**	1.361	1.341	1.343	1.358	**1.302**	1.358	1.305	1.276	1.267
Avg. exchange rate – CAD to USD		**0.741**	0.735	0.746	0.745	0.740	**0.768**	0.737	0.766	0.783	0.789
Financial Performance											
Revenue											
Lumber		**$ 781.6**	$ 178.3	$ 179.9	$ 212.4	$ 211.0	**$1,152.5**	$ 219.7	$ 267.1	$ 351.8	$ 313.9
Logs		**180.9**	51.1	38.4	52.8	38.6	**230.9**	54.9	72.5	70.8	32.7
By-products		**55.0**	17.2	12.8	10.8	14.2	**60.6**	16.4	16.4	14.8	13.0
Total revenue		**$1,017.5**	$ 246.6	$ 231.1	$ 276.0	$ 263.8	**$1,444.0**	$ 291.0	$ 356.0	$ 437.4	$ 359.6
Adjusted EBITDA		**$ (29.9)**	$ (1.2)	$ (11.6)	$ (12.0)	$ (5.0)	**$ 136.9**	$ (11.9)	$ 17.3	$ 66.2	$ 65.4
Adjusted EBITDA margin		**(3%)**	(0%)	(5%)	(4%)	(2%)	**9%**	(4%)	5%	15%	18%
Net income (loss)		**$ (70.1)**	$ (14.3)	$ (17.4)	$ (20.7)	$ (17.7)	**$ 61.8**	$ (21.4)	$ 6.6	$ 38.6	$ 38.0
Earnings (loss) per share											
Basic		**$ (0.22)**	$ (0.04)	$ (0.05)	$ (0.07)	$ (0.05)	**$ 0.19**	$ (0.07)	$ 0.02	$ 0.12	$ 0.12
Diluted		**$ (0.22)**	$ (0.04)	$ (0.05)	$ (0.07)	$ (0.05)	**$ 0.19**	$ (0.07)	$ 0.02	$ 0.12	$ 0.11
Operating Statistics											
Lumber (1)(2)											
Production	mmfbm	**561**	125	126	148	162	**655**	139	169	173	175
Shipments	mmfbm	**588**	136	130	153	170	**716**	155	179	197	186
Price	$/mfbm	**$ 1,329**	$ 1,313	$ 1,388	$ 1,392	$ 1,241	**$ 1,609**	$ 1,420	$ 1,495	$ 1,786	$ 1,688
Logs (3)											
Net production	000 m^3	**2,952**	718	678	935	621	**3,110**	658	800	904	748
Saw log purchases	000 m^3	**675**	200	116	167	192	**1,093**	173	302	328	290
Log availability	000 m^3	**3,627**	918	794	1,102	813	**4,202**	831	1,102	1,232	1,038
Shipments	000 m^3	**1,384**	446	324	370	245	**1,329**	367	404	391	167
Price (4)	$/$m^3$	**$ 122**	$ 112	$ 118	$ 129	$ 135	**$ 161**	$ 142	$ 172	$ 166	$ 163
Share Repurchases and Dividends											
Shares repurchased	# millions	**-**	-	-	-	-	**12.1**	2.2	6.5	-	3.4
Shares repurchased	$ millions	**$ -**	$ -	$ -	$ -	$ -	**$ 20.3**	$ 3.0	$ 10.0	$ -	$ 7.3
Dividends paid	$ millions	**$ 11.9**	$ -	$ 4.0	$ 3.9	$ 4.0	**$ 15.3**	$ 3.9	$ 4.1	$ 4.0	$ 3.3
Non-GAAP Financial Measures											
Net income (loss)		**$ (70.1)**	$ (14.3)	$ (17.4)	$ (20.7)	$ (17.7)	**$ 61.8**	$ (21.4)	$ 6.6	$ 38.6	$ 38.0
Add:											
Amortization		**53.7**	13.3	14.1	13.2	13.1	**50.2**	12.0	12.7	12.8	12.7
Changes in fair value of biological assets		**(0.2)**	-	-	(0.1)	-	**0.1**	(0.2)	(0.2)	-	0.5
Operating restructuring items		**7.5**	0.9	(0.2)	1.6	5.2	**4.5**	3.9	(0.2)	0.2	0.6
Other expense (income)		**1.2**	2.5	(2.2)	0.8	0.1	**(2.1)**	2.0	(4.0)	(0.2)	0.1
Finance costs (income)		**3.0**	1.8	0.5	0.5	0.2	**(0.1)**	(0.1)	(0.7)	0.3	0.4
Income tax expense (recovery)		**(25.0)**	(5.3)	(6.5)	(7.3)	(5.9)	**22.6**	(8.0)	3.0	14.5	13.1
Adjusted EBITDA		**$ (29.9)**	$ (1.2)	$ (11.6)	$ (12.0)	$ (5.0)	**$ 136.9**	$ (11.9)	$ 17.3	$ 66.2	$ 65.4
Divided by total revenue		**1,017.5**	246.6	231.1	276.0	263.8	**1,444.0**	291.0	356.0	437.4	359.6
Adjusted EBITDA margin		**(3%)**	(0%)	(5%)	(4%)	(2%)	**9%**	(4%)	5%	15%	18%

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) Includes glue-laminated wood products.
(3) Coastal BC business only. Net production is sorted log production, net of residuals and waste. Log availability is net production plus saw log purchases.
(4) The average realized log price per cubic metre has been presented on a gross basis, which may include fee-in-lieu and shipping charges incurred on behalf 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.

Snowpack in early 2022 impacted harvest volumes. In late 2022 and in 2023, certain BC manufacturing facilities were curtailed and log production was lowered to match fibre requirements 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 IFRS Accounting 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 13, 2024, 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 13, 2024

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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, 2023 and December 31, 2022
- 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 material accounting policy information

(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, 2023 and December 31, 2022, and its consolidated financial performance and its consolidated cash flows for the years then ended in accordance with IFRS Accounting Standards as issued by the International Accounting Standards Board.

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, 2023. 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 matter described below to be the key audit matter 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 $213.5 million, of which $193.4 million relates to log and lumber inventory. The Entity records inventory at the lower of cost and net realizable value. The determination of cost involves the use of complex models. The Entity determines the cost of lumber inventory using the average cost of production based on the species and facility where they were produced and the cost of log inventory by end sort using the average cost of production by operation based on the operational area in which the logs were produced. Net realizable value is the estimated selling price in the ordinary course of business, less estimated costs of completion and selling expenses.

Why the matter is a key audit matter

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

How the matter was addressed in the audit

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

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

Other Information

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

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

– the information, other than the financial statements and the 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 IFRS Accounting Standards as issued by the International Accounting Standards Board, 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 Milne.

Vancouver, Canada
February 13, 2024

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

	December 31, 2023	December 31, 2022
Assets		
Current assets:		
Cash and cash equivalents	$ 2.3	$ 15.8
Trade and other receivables	50.9	60.5
Inventory (Note 5)	213.5	224.8
Prepaid expenses and other assets	33.9	21.3
Assets held for sale (Note 6)	10.8	-
Income taxes receivable (Note 15)	23.5	17.4
	334.9	339.8
Non-current assets:		
Property, plant and equipment (Note 7)	354.4	364.7
Timber licenses (Note 8)	92.3	96.3
Biological assets (Note 9)	49.3	49.1
Other assets (Note 10)	77.4	75.7
Goodwill (Note 4)	6.9	7.0
Deferred income tax assets (Note 15)	0.2	0.2
	$ 915.4	$ 932.8
Liabilities and Equity		
Current liabilities:		
Bank indebtedness	$ 0.9	$ -
Accounts payable and accrued liabilities	102.8	108.5
Liabilities directly associated with assets held for sale (Note 6)	0.3	-
Income taxes payable (Note 15)	0.2	0.2
Lease liabilities (Note 12)	6.9	6.8
Reforestation obligation (Note 13)	7.9	8.3
Deferred revenue (Notes 20, 23)	2.0	2.0
	121.0	125.8
Non-current liabilities:		
Long-term debt (Note 11)	83.8	-
Lease liabilities (Note 12)	13.0	16.4
Reforestation obligation (Note 13)	14.2	13.8
Other liabilities (Note 14)	11.4	15.4
Deferred revenue (Notes 20, 23)	42.5	44.5
Deferred income tax liabilities (Note 15)	61.6	65.2
	347.5	281.1
Equity:		
Share capital (Note 16)	405.4	405.4
Contributed surplus	8.8	9.1
Translation reserve	1.9	3.6
Retained earnings	148.9	229.1
Total equity attributable to equity shareholders of the Company	565.0	647.2
Non-controlling interest	2.9	4.5
	567.9	651.7
	$ 915.4	$ 932.8

Commitments and contingencies (Note 20)
Subsequent event (Note 20(a))
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,	
	2023	**2022**
Revenue (Note 23)	$ 1,017.5	$ 1,444.0
Costs and expenses:		
Cost of goods sold	966.6	1,189.5
Freight	75.6	102.4
Export tax (Note 20(a))	15.9	20.9
Selling and administration	42.8	44.5
	1,100.9	1,357.3
Operating income (loss) prior to restructuring and other items	(83.4)	86.7
Operating restructuring items (Note 24)	(7.5)	(4.5)
Other income (loss) (Note 25)	(1.2)	2.1
Operating income (loss)	(92.1)	84.3
Finance (costs) income (Note 26)	(3.0)	0.1
Income (loss) before income taxes	(95.1)	84.4
Income tax expense (recovery) (Note 15)		
Current	(21.5)	12.5
Deferred	(3.5)	10.1
	(25.0)	22.6
Net income (loss)	(70.1)	61.8
Net income (loss) attributable to equity shareholders of the Company	(68.5)	61.7
Net income (loss) attributable to non-controlling interest	(1.6)	0.1
	(70.1)	61.8
Other comprehensive income (loss)		
Items that will not be reclassified to profit or loss:		
Employee future benefits actuarial gain (loss) (Note 21)	(0.3)	4.2
Income tax recovery (expense) (Note 15)	0.1	(1.1)
Total items that will not be reclassified to profit or loss	(0.2)	3.1
Items that may be reclassified subsequently to profit or loss:		
Foreign currency translation differences for foreign operations	(1.7)	5.8
Total comprehensive income (loss)	$ (72.0)	$ 70.7
Earnings (loss) per share (in dollars) (Note 18)		
Basic and diluted	$ (0.22)	$ 0.19

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 as 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	-	-	5.8	64.8	0.1	70.7
Stock options recognized in equity (Note 17(a))	-	0.2	-	-	-	0.2
Exercise of stock options (Notes 17(a))	0.1	(0.1)	-	(0.1)	-	(0.1)
Repurchase of shares (Note 16)	(15.5)	-	-	(4.8)	-	(20.3)
Dividends	-	-	-	(15.3)	-	(15.3)
Distributions to non-controlling interest	-	-	-	-	(0.7)	(0.7)
Total transactions with owners, recorded directly in equity	(15.4)	0.1	-	(20.2)	(0.7)	(36.2)
Balance as at December 31, 2022	405.4	9.1	3.6	229.1	4.5	651.7
Net loss	-	-	-	(68.5)	(1.6)	(70.1)
Other comprehensive income (loss):						
Employee future benefits actuarial loss	-	-	-	(0.3)	-	(0.3)
Income tax recovery on actuarial loss	-	-	-	0.1	-	0.1
Foreign currency translation differences for foreign operations	-	-	(1.7)	-	-	(1.7)
Total comprehensive loss	-	-	(1.7)	(68.7)	(1.6)	(72.0)
Stock options recognized in equity (Note 17(a))	-	-	-	-	-	-
Exercise of stock options (Note 17(a))	-	(0.3)	-	0.4	-	0.1
Dividends	-	-	-	(11.9)	-	(11.9)
Total transactions with owners, recorded directly in equity	-	(0.3)	-	(11.5)	-	(11.8)
Balance as at December 31, 2023	405.4	8.8	1.9	148.9	2.9	567.9

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, 2023	2022
Cash provided by (used in):		
Operating activities		
Net income (loss)	$ (70.1)	$ 61.8
Items not involving cash:		
Amortization of plant and equipment (Note 7)	49.7	46.2
Amortization of timber licenses (Note 8)	4.0	4.0
Loss (gain) on disposal of property, plant, equipment and other (Notes 7, 8, 9)	0.2	(0.6)
Amortization of deferred revenue (Note 23(b))	(2.0)	(2.0)
Finance costs (income) (Note 26)	3.0	(0.1)
Income tax (recovery) expense (Note 15)	(25.0)	22.6
Change in fair value of biological assets (Note 9)	(0.2)	0.1
Change in reforestation obligation (Note 13)	(0.5)	(0.7)
Share-based compensation, including mark-to-market adjustment (Note 17)	(1.2)	(1.8)
Change in employee future benefits obligation (Note 21)	(0.9)	(1.6)
Export tax receivable (Notes 10, 20)	(4.3)	(18.0)
Foreign exchange and other	1.8	(0.7)
Income taxes received (paid)	15.4	(93.9)
	(30.1)	15.3
Changes in non-cash working capital items:		
Trade and other receivables	6.7	(0.5)
Inventory	8.8	(12.8)
Prepaid expenses and other assets	(12.1)	(5.5)
Accounts payable and accrued liabilities	(7.1)	(6.8)
	(3.7)	(25.6)
	(33.8)	(10.3)
Investing activities		
Additions to property, plant and equipment (Note 7)	(44.4)	(44.3)
Proceeds from disposal of property, equipment and other	2.2	2.7
Acquisition of Calvert Company, Inc. assets (Note 4)	-	(16.1)
Advances and loans	(1.1)	-
Insurance proceeds	4.7	-
Deposits on purchases of equipment	-	(2.2)
	(38.6)	(59.9)
Financing activities		
Net drawings on credit facility (Note 11)	84.0	-
Bank indebtedness	0.9	-
Equipment loan	0.1	-
Interest payments	(4.7)	(0.5)
Lease payments (Note 12)	(9.5)	(7.5)
Repurchase of shares (Note 16)	-	(20.3)
Dividends (Note 16)	(11.9)	(15.3)
Distributions to non-controlling interest	-	(0.4)
	58.9	(44.0)
Decrease in cash and cash equivalents	(13.5)	(114.2)
Cash and cash equivalents, beginning of the year	15.8	130.0
Cash and cash equivalents, December 31	$ 2.3	$ 15.8

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. There were no distributions for the year ended December 31, 2023.

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 in the coastal region of British Columbia ("BC") and 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, 2023 and 2022 comprise the financial results of the Company and its subsidiaries. The Company's primary business is the sale of lumber and logs, which includes timber harvesting, sawmilling logs into specialty lumber, value-added lumber and glulam remanufacturing, and wholesaling purchased lumber. The Company is listed on the Toronto Stock Exchange ("TSX"), under the symbol WEF.

2. Basis of preparation

(a) Statement of compliance

The consolidated financial statements of the Company have been prepared in accordance with IFRS Accounting Standards 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 13, 2024.

(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, 2023 are Western Lumber Sales Limited which sells into the US, Western Forest Products Japan Ltd., which sells into Japan, and WFP Partnerships Ltd., which holds assets of the Company's US operations through indirect US subsidiaries, including Western Specialty Lumber Sales US LLC, and operating companies, Western Forest Products US LLC and WFP Engineered Products LLC.

2. Basis of preparation (continued)

(d) Basis of consolidation (continued)

(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 subsidiaries of the Company operate with the USD as their functional currency. On consolidation, revenues and expenses from these foreign operations are translated into CAD using the exchange rate at the transaction date, or at average rates for the period which approximate the transaction date, as applicable. Assets and liabilities are translated into CAD at exchange rates in effect at the reporting date. Resulting foreign currency translation differences are recognized in other comprehensive income ("OCI") and recorded to the translation reserve within equity. Upon the 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 an 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 6	Measurement of fair value less costs to sell of assets held for sale;
Note 9	Measurement of fair value less costs to sell of standing timber;
Note 12	Measurement of the present value of lease liabilities: key assumptions about the future lease payments and the discount rate used;
Note 13	Measurement of the present value of reforestation obligations: key assumptions on the likelihood and quantum of outflow of resources;
Note 17	Measurement of share-based payment transactions;
Note 20	Recognition and measurement of provisions and contingencies: key assumptions about the likelihood and quantum of outflow of resources; and
Note 21	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 27 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.

3. Material accounting policies

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

(a) 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.

3. Material accounting policies (continued)

(a) Impairment of non-financial assets (continued)

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, 2023, 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.

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.

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

4. Acquisition (continued)

Supporting information (continued)

The acquisition has been accounted for as a business combination and the value of the consideration transferred was allocated 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 $6.9 million as at December 31, 2023 (2022: $7.0 million) and the resulting foreign exchange loss of $0.1 million (2022: $0.2 million foreign exchange gain) was recognized in the translation reserve.

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

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. Engineered wood products are categorized with lumber inventory.

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, 2023			December 31, 2022		
	Gross carrying value	Provisions	Lower of cost and net realizable value	Gross carrying value	Provisions	Lower of cost and net realizable value
Logs	$ 146.6	$ (20.8)	$ 125.8	$ 161.0	$ (28.2)	$ 132.8
Lumber	86.1	(18.5)	67.6	94.2	(24.9)	69.3
Supplies and other	20.1	-	20.1	22.7	-	22.7
	$ 252.8	$ (39.3)	$ 213.5	$ 277.9	$ (53.1)	$ 224.8

The carrying amount of inventory recorded at net realizable value was $89.3 million at December 31, 2023 (2022: $121.2 million), with the remaining inventory recorded at cost.

For the year ended December 31, 2023, $966.6 million (2022: $1,189.5 million) of inventory was charged to cost of goods sold. This includes a decrease in the provision for write-down to net realizable value of $13.8 million for the year ended December 31, 2023 (2022: $43.2 million increase).

6. Assets held for sale

Accounting policy

Assets that are "held for sale" are measured at the lower of their carrying value or fair value less costs to sell and are not depreciated while classified as held for sale. Interest and other expenses and related liabilities attributable to assets classified as held for sale continue to be recognized as incurred.

Supporting information

Management intends to sell certain manufacturing assets. Accordingly, these assets are presented as assets held for sale. Fair value, less costs to sell, is expected to exceed the carrying amount. The assets held for sale comprised the following assets and liabilities:

	December 31, 2023	December 31, 2022
Supplies and other	$ 2.5	$ -
Property, plant and equipment	8.3	-
Assets held for sale	$ 10.8	$ -
Lease liabilities directly associated with assets held for sale	$ 0.3	$ -

7. 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.

7. Property, plant and equipment (continued)

Accounting policy (continued)

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 assets (“ROU asset”), see Note 12.

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

7. 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 as at December 31, 2021	$ 58.6	$ 445.6	$ 15.5	$ 234.3	$ 754.0	$ 33.5	$ 787.5
Acquisition of Calvert Company, Inc assets (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 as at December 31, 2022	59.5	483.5	16.2	245.5	804.7	43.6	848.3
Additions	-	0.1	36.4	8.1	44.6	5.9	50.5
Reclassification to asset held for sale	(2.1)	(17.0)	-	-	(19.1)	(0.5)	(19.6)
Disposals	(0.1)	(5.3)	(0.7)	-	(6.1)	(2.9)	(9.0)
Transfers	-	25.5	(27.2)	1.7	-	-	-
Effect of movements in exchange rates	(0.3)	(1.3)	(0.1)	-	(1.7)	(0.2)	(1.9)
Balance as at December 31, 2023	$ 57.0	$ 485.5	$ 24.6	$ 255.3	$ 822.4	$ 45.9	$ 868.3
Accumulated amortization							
Balance as 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 as at December 31, 2022		250.8		212.1	462.9	20.7	483.6
Amortization		31.0		10.2	41.2	8.5	49.7
Reclassification to asset held for sale		(11.1)		-	(11.1)	(0.2)	(11.3)
Disposals		(5.2)		-	(5.2)	(2.5)	(7.7)
Effect of movements in exchange rates		(0.3)		-	(0.3)	(0.1)	(0.4)
Balance as at December 31, 2023		$ 265.2		$ 222.3	$ 487.5	$ 26.4	$ 513.9
Carrying amounts							
As at December 31, 2022	$ 59.5	$ 232.7	$ 16.2	$ 33.4	$ 341.8	$ 22.9	$ 364.7
As at December 31, 2023	$ 57.0	$ 220.3	$ 24.6	$ 33.0	$ 334.9	$ 19.5	$ 354.4

The Company utilized $0.2 million of cash deposits during the year ended December 31, 2023 (2022: $3.2 million) as equipment was delivered.

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

8. 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, 2023	December 31, 2022
Cost		
Balance at beginning of year and December 31	$ 169.4	$ 169.4
Accumulated amortization		
Balance at beginning of year	73.1	69.1
Amortization	4.0	4.0
Balance at December 31	77.1	73.1
Carrying amount at December 31	$ 92.3	$ 96.3

9. Biological assets

Accounting policy

Under IAS 41, *Agriculture*, the Company's private timberlands, managed for timber production, are classified as a growing forest, with the standing timber on this privately held forest land recorded and 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, 2023	2022
Carrying value at beginning of year	$ 49.1	$ 49.1
Change in fair value due to growth and pricing	0.3	1.2
Harvested timber transferred to inventory	(0.1)	(1.2)
Carrying value at December 31	$ 49.3	$ 49.1

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

During the year ended December 31, 2023, the Company harvested and scaled 33,961 cubic metres ("m^3") of logs from its private timberlands, which had a fair value less costs to sell of $131 per m^3 at the date of harvest (2022: 132,932 m^3 and $178 per m^3, respectively).

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

9. 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 $49.3 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.

10. Other assets

	December 31, 2023	December 31, 2022
Export tax receivable and related interest (Note 20)	$ 70.8	$ 63.7
Investments, long-term loans and advances	3.9	11.0
Note receivable	2.6	2.6
Cash deposits on equipment	-	0.2
Other	0.4	0.8
	77.7	78.3
Current portion	0.3	2.6
	$ 77.4	$ 75.7

11. 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 straight line to finance costs over the term of the long-term debt.

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

11. Long-term debt (continued)

Supporting information

	December 31, 2023	December 31, 2022
Available Credit Facility	$ 250.0	$ 250.0
Net drawings on Credit Facility	(84.0)	-
Outstanding letters of credit included in line utilization	(19.6)	(16.0)
Unused portion of Credit Facility	$ 146.4	$ 234.0

	December 31, 2023	December 31, 2022
Credit Facility drawings	$ 84.0	$ -
Equipment loan	0.1	-
	84.1	-
Less transaction costs	(0.3)	-
Long-term debt at December 31	$ 83.8	$ -

The Company’s syndicated Credit Facility (the “Credit Facility”) provides for a maximum borrowing amount of $250.0 million and includes an accordion feature which allows the Company to increase the aggregate amount available to $350.0 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. On June 29, 2023, certain financial covenants were amended for administrative purposes.

The Company’s Credit Facility was drawn by $84.0 million as at December 31, 2023 (2022: $nil). The Company was in compliance with its financial covenants as at December 31, 2023.

12. 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 statements of financial position (see Note 7).

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

12. 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, 2023	December 31, 2022
Lease liabilities, beginning of year	$ 23.2	$ 18.3
New leases and modifications	6.0	11.6
Terminations	(0.7)	(0.3)
Finance costs (Note 26)	1.3	0.9
Lease payments	(9.5)	(7.5)
Reclassification to liabilities directly associated with assets held for sale (Note 6)	(0.3)	-
Effect of movements in exchange rates	(0.1)	0.2
Lease liabilities at December 31	$ 19.9	$ 23.2
Current	$ 6.9	$ 6.8
Long term	13.0	16.4
	$ 19.9	$ 23.2

The weighted average incremental borrowing rate used to establish lease obligations in 2023 was approximately 7.75% (2022: 6.65%).

In addition to the above, the Company recognized an expense of $3.1 million during the year ended December 31, 2023 (2022: $3.1 million), relating to short term and low value lease payments.

13. Reforestation obligation

Accounting policy

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

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

Reforestation on private timberlands is expensed as incurred.

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

13. Reforestation obligation (continued)

Supporting information

Changes in the reforestation obligation were as follows:

	Years ended December 31, 2023	2022
Reforestation obligation, beginning of year	$ 22.1	$ 22.4
Provision charged	7.3	9.4
Expenditures	(7.8)	(10.1)
Unwind of discount (Note 26)	0.5	0.4
	22.1	22.1
Less current portion	7.9	8.3
Long-term reforestation obligation, end of year	$ 14.2	$ 13.8

The reforestation expenditures are expected to occur over the next one to ten years and have been discounted at risk-free rates of 3.10% to 4.73% (2022: 3.25% to 4.61%). The total undiscounted amount of the estimated future expenditures required to settle the reforestation obligation at December 31, 2023 is $24.5 million (2022: $24.5 million).

14. Other liabilities

	Current	Non-current	Total
As at December 31, 2023			
Defined benefit employee future benefits obligation (Note 21)	$ -	$ 4.7	$ 4.7
Defined contribution employee future benefits obligation	-	2.1	2.1
Environmental provision	0.1	2.7	2.8
Deferred share unit plan liabilities (Note 17(b))	1.8	-	1.8
Performance share unit plan liabilities (Note 17(c))	1.4	-	1.4
Restricted share unit plan liabilities (Note 17(d))	0.8	1.2	2.0
Other	-	0.7	0.7
	$ 4.1	$ 11.4	$ 15.5
As at December 31, 2022			
Defined benefit employee future benefits obligation (Note 21)	$ -	$ 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 17(b))	2.4	-	2.4
Performance share unit plan liabilities (Note 17(c))	3.8	2.1	5.9
Restricted share unit plan liabilities (Note 17(d))	0.4	1.5	1.9
Other	-	2.2	2.2
	$ 8.5	$ 15.4	$ 23.9

The current portion of other liabilities is recognized in accounts payable and accrued liabilities in the consolidated statements of financial position.

15. 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 income tax

Current income 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)

15. 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,	
	2023	2022
Income tax expense (recovery)		
Current	$ (21.5)	$ 12.5
Deferred	(3.5)	10.1
	$ (25.0)	$ 22.6

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,	
	2023	2022
Income tax expense (recovery) at the statutory rate of 27.0% (2022: 27.0%)	$ (25.7)	$ 22.8
Difference in tax rates	0.4	(0.8)
Over provided for in prior years	(0.5)	-
Other permanent differences	0.9	0.7
Change in unrecognized deductible temporary differences	(0.1)	(0.1)
Total tax expense (recovery) at effective rate of 26.3% (2022: 26.8%)	$ (25.0)	$ 22.6

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

15. 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, 2023				
Deferred income tax assets				
Tax loss carry-forwards	$ 1.6	$ 0.8	$ -	$ 2.4
Employee future benefits obligation	1.4	(0.3)	0.1	1.2
Provisions and other	9.6	(1.6)	-	8.0
	12.6	(1.1)	0.1	11.6
Deferred income tax liabilities				
Intangible assets	(24.9)	1.0	-	(23.9)
Property, plant and equipment	(52.7)	3.6	-	(49.1)
	(77.6)	4.6	-	(73.0)
	$ (65.0)	$ 3.5	$ 0.1	$ (61.4)
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)

As recorded in the consolidated statements of financial position as follows:

	December 31, 2023	December 31, 2022
Deferred income tax assets	$ 0.2	$ 0.2
Deferred income tax liabilities	(61.6)	(65.2)
	$ (61.4)	$ (65.0)

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, 2023, the Company and its subsidiaries have unused non-capital tax losses carried forward totalling $7.0 million in the US (2022: $2.3 million) and $3.4 million in Canada (2022: $4.2 million), which can be used to reduce taxable income. The Company has unused capital losses carried forward of approximately $46.8 million (2022: $46.8 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, 2023	December 31, 2022
Temporary deductible differences	$ 31.4	$ 31.6
Capital loss carry-forwards	46.8	46.8
	$ 78.2	$ 78.4

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

16. 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 as 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 as at December 31, 2022	316,742,746	405.4
Exercise of stock options	2,811	-
Balance as at December 31, 2023	316,745,557	$ 405.4

During 2023, the Company paid cash dividends of $11.9 million (2022: $15.3 million).

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

No shares were repurchased under the NCIB during the year ended December 31, 2023 (2022: 12,146,409 common shares for $20.3 million at an average price of $1.67 per common share, with charges of $15.5 million and $4.8 million to share capital and retained earnings, respectively).

In addition, 400,000 stock options were exercised in 2023 with 2,811 common shares issued on a cashless basis resulting in a $0.4 million charge to retained earnings (2022: 250,000 stock options exercised with 108,585 common shares issued on a cashless basis resulting in a $0.1 million charge to retained earnings).

17. 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)

17. 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.

No options were granted under the plan in 2023 (2022: 500,000 options granted).

The following table summarizes the change in options outstanding:

	Year ended December 31, 2023		Year ended December 31, 2022	
	Number of options	Weighted average exercise price	Number of options	Weighted average exercise price
Outstanding at beginning of year	15,133,457	$ 1.72	15,247,304	$ 1.71
Granted	-	-	500,000	1.47
Exercised	(400,000)	1.27	(250,000)	0.96
Expired	(1,000,000)	1.27	-	-
Forfeited	(2,246,778)	1.64	(363,847)	1.31
Outstanding at December 31	11,486,679	$ 1.79	15,133,457	$ 1.72

Details of options outstanding under the Option Plan as at December 31, 2023 were as follows:

Exercise Price	Number outstanding Dec. 31, 2023	Weighted average remaining option life (years)	Weighted average exercise price	Number exercisable Dec. 31, 2023	Weighted average exercise price
$1.05 – 1.05	3,790,382	6.2	$ 1.05	2,274,229	$ 1.05
$1.47 – 1.97	3,333,906	4.8	1.88	2,558,251	1.93
$2.09 – 2.74	4,362,391	2.0	2.38	4,362,391	2.38
	11,486,679	4.2	$ 1.79	9,194,871	$ 1.92

During 2023, the Company recorded a negligible equity-based compensation expense for these options (2022: $0.2 million), with a corresponding increase to contributed surplus.

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

17. 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, 2023		Year ended December 31, 2022	
	Number of DSUs	Weighted average unit value[1]	Number of DSUs	Weighted average unit value[1]
Outstanding at beginning of year	2,067,371	$ 1.45	2,288,822	$ 1.43
Granted[1]	886,800	0.90	564,044	1.43
Redeemed	(386,180)	1.77	(785,495)	1.38
Outstanding at December 31	2,567,991	$ 1.21	2,067,371	$ 1.45

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

During 2023, the Company recorded compensation recovery for these DSUs of $1.0 million (2022: $2.1 million), with a corresponding decrease to accounts payable and accrued liabilities (Note 14).

(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, 2023		Year ended December 31, 2022	
	Number of PSUs	Weighted average unit value[1]	Number of PSUs	Weighted average unit value[1]
Outstanding at beginning of year	3,591,951	$ 1.46	3,538,407	$ 1.40
Granted[1]	1,638,257	1.29	1,011,852	2.02
Redeemed	(1,655,262)	1.08	(718,165)	1.89
Forfeited	-	-	(240,143)	1.63
Outstanding at December 31	3,574,946	$ 1.55	3,591,951	$ 1.46

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

During 2023, the Company recorded compensation recovery for these PSUs of $0.7 million (2022: $0.3 million), with a corresponding decrease to accounts payable and accrued liabilities (Note 14).

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

17. 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, 2023		Year ended December 31, 2022	
	Number of RSUs	Weighted average unit value[1]	Number of RSUs	Weighted average unit value[1]
Outstanding at beginning of year	3,438,775	$ 1.61	2,201,462	$ 1.52
Granted[1]	1,568,231	1.28	1,611,498	1.74
Redeemed	(341,235)	1.08	-	-
Forfeited	-	-	(374,185)	1.61
Outstanding at December 31	4,665,771	$ 1.54	3,438,775	$ 1.61

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

During 2023, the Company recorded compensation expense for these RSUs of $0.5 million (2022: $0.4 million) with a corresponding increase to accounts payable and accrued liabilities and other liabilities (Note 14).

18. Earnings (loss) per share

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

	Year ended December 31, 2023			Year ended December 31, 2022		
	Net loss attributable to equity shareholders	Weighted average number of shares	Per share	Net income attributable to equity shareholders	Weighted average number of shares	Per share
Issued shares, beginning of year		316,742,746			328,780,570	
Effect of shares:						
Issued		2,441			92,818	
Repurchased		-			(5,925,968)	
Basic earnings (loss) per share	$ (68.5)	316,745,187	$ (0.22)	$ 61.7	322,947,420	$ 0.19
Effect of dilutive securities:						
Stock options		-			2,193,071	
Diluted earnings (loss) per share	$ (68.5)	316,745,187	$ (0.22)	$ 61.7	325,140,491	$ 0.19

19. 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.

19. Capital requirements (continued)

In 2022, Western undertook strategic capital investments of approximately $29 million in its BC operations with a view to improving Western's long-term competitiveness and growing its value-added wood products business, including:

- A continuous kiln at the Saltair sawmill is in the construction phase with $11.2 million in spending completed through December 31, 2023. Delays in the receipt of certain final permits have slowed completion of the project, which is now anticipated to commence commissioning in first quarter of 2024. Once the kiln is operational, the Company will qualify for a $1.5 million energy rebate resulting from installation of more energy efficient equipment;
- Capital expenditures for optimization of a centralized planer and installation of a machine stress rate ("MSR") grader at the Duke Point facility total $9.2 million through December 31, 2023, including installation of the MSR grader, which is complete; and
- Other strategic investments with expenditures to date totalling $7.5 million, with most projects complete.

Each of these investments will serve to generate additional value from Western's wood products and are expected to be completed by mid-2024.

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 response to the weaker lumber market conditions and corresponding financial results, Western suspended its quarterly dividend until further notice, effective November 7, 2023. The Board of Directors ("Board") will continue to review the Company's dividend on a quarterly basis. Any decision to declare and pay dividends in the future will be made at the discretion of the Board, after considering the Company's operating results, financial condition, cash requirements, financing agreement restrictions and other factors the Board may deem relevant. During the year ended December 31, 2023, the Company paid total cash dividends of $11.9 million (2022: $15.3 million).

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

As at December 31, 2023, the Company's Credit Facility was drawn by $84.0 million and the Company held cash and cash equivalents of $2.3 million (2022: $nil and $15.8 million, respectively). Under the Credit Facility agreement, the Company is subject to certain financial covenants. As at December 31, 2023, the Company was 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.

20. 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.

20. Commitments and contingencies (continued)

(a) Softwood lumber duty dispute (continued)

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

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

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

As cash deposit rates exceeded final duty rates for lumber shipments made in 2017 through 2021, the Company recognized a long-term interest-bearing duty receivable totalling USD$53.4 million (CAD$70.8 million) in its consolidated statement of financial position, of which USD$3.5 million (CAD$4.3 million) was recognized as an export tax recovery in 2023 (2022: USD$13.4 million; CAD$18.0 million). This recovery was netted against export tax expense of $20.2 million (2022: $38.9 million), resulting in a net export tax of $15.9 million (2022: $20.9 million) as recorded in the Statement of comprehensive income.

Under US law, the DoC and US International Trade Commission (“USITC”) are required to conduct a sunset review 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. The sunset review was initiated on December 1, 2022.

On March 27 and April 3, 2023, the DoC issued the final results of its first sunset review of the CV and AD orders, respectively, concluding that if duties on Canadian softwood lumber products were revoked, there would likely be a continuation or recurrence of countervailable subsidies and dumping.

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

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

On November 30, 2023, the USITC issued its final determination under the sunset review, concurring with the DoC conclusion. The USITC filed its final determination in the Federal Register on December 21, 2023, resulting in a continuation of the CV and AD orders.

On January 17, 2024, the Government of Canada filed a notice of intent to challenge the ITC decision to maintain duties on Canadian softwood lumber products, under Chapter 10 of the Canada-United States-Mexico Agreement.

On February 1, 2024, the DoC released its preliminary determination for CV and AD rates resulting from its fifth AR of CV and AD rates for shipments in 2022, indicating a combined rate of 13.86%. The DoC may revise these rates between the preliminary and the final determination, expected to be released in the third quarter of 2024. Cash deposits continue at the combined duty rate of 8.05% until the final determinations are published, after which the 2022 rate will apply.

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

20. Commitments and contingencies (continued)

(a) Softwood lumber duty dispute (continued)

The following table summarizes the cash deposit rates in effect and the final rates applicable to Canadian lumber shipments to the US in 2017 through 2021 and preliminary rates for 2022:

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

Lumber shipment year	AR5 2022 Preliminary	AR4 2021 Final	AR3 2020 Final	AR2 2019 Final	AR1 2018 Final	AR1 2017 Final
Duty rate						
CV	6.71%	1.79%	3.83%	6.32%	7.42%	7.26%
AD	7.15%	6.26%	4.76%	11.59%	1.57%	1.57%
Combined	13.86%	8.05%	8.59%	17.91%	8.99%	8.83%

As at December 31, 2023, including interest of USD$6.8 million (2022: USD$4.0 million), the duty receivable of USD$53.4 million (2022: USD$47.0 million) was revalued at the year-end exchange rate to CAD$70.8 million (2022: CAD$63.7 million).

Interest revenue of $3.8 million was recorded in finance income (costs) for the year ended December 31, 2023 (2022: $2.2 million). A foreign exchange loss of $1.1 million was recorded in other income (loss) for the year ended December 31, 2023 (2022: foreign exchange gain of $3.2 million).

As at December 31, 2023, the Company had paid $219 million of duties, all of which remain held in trust by US Department of Treasury (2022: $203 million). With the exception of USD$46.6 million (CAD$61.7 million) of duty deposits recognized as a receivable, all duty deposits have been expensed at the cash deposit rates in effect at the date of payment.

(b) 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 20(a)).

On December 4, 2023, the fully manufactured requirements under the Regulation were expanded to include the BC Interior effective February 1, 2024.

During 2023, the Company recorded export tax expense of $2.4 million (2022: $4.3 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.

20. Commitments and contingencies (continued)

(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 23(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 may, in the case of a failure to produce the minimum annual volume, require the Company to conduct whole log chipping or sell saw logs, which could reduce log availability for our sawmills, source the deficiency from third parties at additional cost or incur a penalty under the fibre supply agreements. If the Company takes any significant curtailments in its sawmills its chip production would decline, increasing the risk that the Company would not meet its contractual obligations where it is not possible to secure replacement chips on the open market. Based on chip and pulp log volumes supplied to date and the exercise of force majeure provisions in 2023 and 2022 the Company believes it has satisfied annual fibre commitments for those years.

(e) *Bond obligations*

As at December 31, 2023 the Company posted $11.9 million in bid bonds (2022: $13.3 million) for purchases under timber sales agreements, with expiry dates extending through February 2025 and $37.8 million in customs bonds (2022: $34.5 million) for softwood lumber duties. The customs bonds, which are partially secured by letters of credit of $18.6 million (2022: $14.9 million) at December 31, 2023, remain outstanding until the related softwood lumber duties are liquidated.

(f) *Purchase commitments*

As at December 31, 2023, the Company had contracts to acquire property, plant and equipment totalling $7.5 million (2022: $9.3 million) and contractual commitments of $9.6 million (2022: $4.2 million) for purchases of lumber for wholesale programs.

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

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

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

20. Commitments and contingencies (continued)

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

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

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

(i) New limited partnership formation

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

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

(j) Pension funding commitments

The Company has funding requirements under its defined benefit pension plans of $0.7 million for 2024 and an estimated $0.7 million per year on average for 2025 to 2031, or until such time as a new funding valuation may lead to a change in the payments required.

21. 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.

21. Employee future benefits (continued)

Accounting policy (continued)

(c) Employee future benefits (continued)

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.

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

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

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

21. Employee future benefits (continued)

Supporting information

(c) Employee future benefits (continued)

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

	December 31, 2023		December 31, 2022	
	Salaried pension plans	Non-pension plans	Salaried pension plans	Non-pension plans
Accrued benefit obligation:				
Balance, beginning of year	$ 90.8	$ 2.3	$ 117.6	$ 2.8
Current service costs and administrative expenses	0.3	-	0.3	-
Benefits and administrative expenses paid	(8.0)	(0.2)	(8.1)	(0.2)
Interest cost	4.5	0.1	3.2	0.1
Actuarial loss (gain)	3.0	0.1	(22.2)	(0.4)
Balance, end of year	$ 90.6	$ 2.3	$ 90.8	$ 2.3
Plan assets:				
Fair value, beginning of year	$ 88.0	$ -	$ 109.8	$ -
Company's contributions	0.8	0.2	1.7	0.2
Benefits and administrative expenses paid	(7.8)	(0.2)	(8.1)	(0.2)
Interest on plan assets	4.4	-	3.0	-
Actuarial gain (loss)	2.8	-	(18.4)	-
Fair value, end of year	$ 88.2	$ -	$ 88.0	$ -
Net employee future benefits recognized in consolidated statements of financial position (Note 14)	$ 2.4	$ 2.3	$ 2.8	$ 2.3
Cumulative actuarial gains (losses), beginning of year	$ (30.6)	$ 3.2	$ (34.4)	$ 2.8
Actuarial gain (loss) recognized directly in OCI	(0.2)	(0.1)	3.8	0.4
Cumulative actuarial gains (losses), end of year	$ (30.8)	$ 3.1	$ (30.6)	$ 3.2
Experience gains (losses):				
Experience gains (losses) on plan assets:				
Amount	$ 2.8	n/a	$ (18.4)	n/a
Percentage of plan assets	3.21%	n/a	(20.95%)	n/a
Experience gains (losses) on plan liabilities:				
Amount	$ 1.0	$ (0.2)	$ 0.4	$ -
Percentage of plan liabilities	1.12%	(8.21%)	0.40%	0.00%

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

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

Total cash payments for employee future benefits for the year ended December 31, 2023 were $12.4 million (2022: $14.1 million), consisting of cash contributed by the Company to its funded pension plans, cash payments directly to beneficiaries for its unfunded other benefit plans, and cash contributed to the forest industry union defined benefit plans.

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

21. Employee future benefits (continued)

Supporting information (continued)

(c) Employee future benefits (continued)

The Company measures the fair value of plan assets and the accrued benefit obligations for its defined benefit plans for accounting purposes annually at December 31. The most recent actuarial valuations of the funded defined benefit pension plans were performed at December 31, 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 $87.9 million at December 31, 2023 (2022: $86.8 million) in respect of plans that are wholly or partially funded.

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

	December 31, 2023	December 31, 2022
Equity securities	5%	10%
Debt securities	92%	86%
Other	3%	4%
	100%	100%

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

	December 31, 2023	December 31, 2022	December 31, 2023 Increase (decrease) of accrued benefit obligation with change assumption	
			1% Increase	1% Decrease
Discount rate, beginning of year for:				
Pension plans	5.17%	2.84%	n/a	n/a
Non-pension plans	5.20%	2.75%	n/a	n/a
Discount rate, end of year for:				
Pension plans	4.63%	5.17%	$ (7.6)	$ 9.0
Non-pension plans	4.65%	5.20%	(0.2)	0.2
Rate of compensation increase for all plans	0.01%	0.01%	-	-
Health care and medical cost trend rate	4.33% in 2021 grading to 5.30% in 2030	5.61% in 2019 grading to 3.86% in 2029	0.2	(0.2)
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, 2023		December 31, 2022	
	Salaried pension plans	Non-pension plans	Salaried pension plans	Non-pension plans
Defined benefit plans:				
Current service costs and administrative expenses	$ 0.3	$ -	$ 0.3	$ -
Net interest cost (Note 26)	0.1	0.1	0.2	0.1
Total cost of employee post-retirement benefits	$ 0.4	$ 0.1	$ 0.5	$ 0.1

21. Employee future benefits (continued)

Supporting information (continued)

(c) *Employee future benefits (continued)*

The Company is committed to making funding contributions to its defined benefit plans of $1.2 million during 2024.

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 2023, such contributions amounted to $6.0 million (2022: $7.6 million).

22. 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 23.

23. Revenue

Accounting policy

Revenue from the sale of goods or provision of services 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 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.

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

23. Revenue (continued)

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.

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, 2023	2022
Primary geographic markets		
Canada	$ 392.9	$ 576.4
United States	351.5	436.3
Japan	129.8	204.3
China	72.2	103.8
Other	57.4	105.9
Europe	13.7	17.3
	$ 1,017.5	$ 1,444.0
Major products		
Lumber	$ 781.6	$ 1,152.5
Logs	180.9	230.9
By-products and other	55.0	60.6
	$ 1,017.5	$ 1,444.0

(b) Contract balances

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

	Years ended December 31, 2023	2022
Trade and other receivables	$ 50.9	$ 60.5
Other investments and advances	-	1.4
Contract liabilities	44.5	46.5

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 20(d)). The Company recognized related revenue of $2.0 million in 2023 (2022: $2.0 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.

24. Operating restructuring items

	Years ended December 31, 2023	2022
Retirement and other benefits	$ 7.1	$ 1.9
Other expense	0.4	2.6
	$ 7.5	$ 4.5

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

25. Other income (expense)

	Years ended December 31, 2023	2022
Gain (loss) on disposal of property, equipment and other (Notes 7, 8, 9)	$ (0.2)	$ 0.6
Foreign exchange gains (losses)	(1.5)	2.5
Other	0.5	(1.0)
	$ (1.2)	$ 2.1

In 2023, the Company disposed of surplus equipment and other assets, recognizing $0.2 million loss (2022: $0.6 million gain attributable primarily to gains from the sale of surplus equipment and other assets).

26. Finance costs (income)

Accounting policy

Finance costs (income) 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 costs (income) 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 21.

Supporting information

	Years ended December 31, 2023	2022
Long-term debt	$ 4.3	$ 0.8
Lease liabilities (Note 12)	1.3	0.9
Employee future benefits obligation (Note 21)	0.2	0.3
Unwind of discount on provisions (Note 13)	0.5	0.4
Interest revenue on export tax receivable (Note 20(a))	(3.8)	(2.2)
Amortization of deferred financing costs	0.2	0.3
Other	0.3	(0.6)
	$ 3.0	$ (0.1)

27. 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.

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

(a) Financial assets (continued)

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. The Company's non-derivative financial liabilities are measured at amortized cost using the effective interest method.

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 statements of financial position with changes in value recognized as gains or losses within sales in net income.

(c) Derivative financial instruments

Financial assets and liabilities are offset, and the net amount presented in the consolidated statements 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, 2022.

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

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

		December 31, 2023			December 31, 2022		
	Level	Mandatory at FVTPL	Amortized cost	Total	Mandatory at FVTPL	Amortized cost	Total
Financial assets							
Market-based investments	2	$ -	$ -	$ -	$ 4.5	$ -	$ 4.5
Foreign currency forward contracts	2	-	-	-	0.1	-	0.1
Cash and cash equivalents	2	-	2.3	2.3	-	15.8	15.8
Trade and other receivables	3	-	50.9	50.9	-	60.5	60.5
Other investments and advances		-	-	-	-	1.4	1.4
Export tax and related interest receivable (Note 10)	3	70.8	-	70.8	63.7	-	63.7
Total financial assets		$ 70.8	$ 53.2	$ 124.0	$ 68.3	$ 77.7	$ 146.0

	Level	Mandatory at FVTPL	Other financial liabilities	Total	Mandatory at FVTPL	Other financial liabilities	Total
Financial liabilities							
Bank indebtedness	2	$ -	$ 0.9	$ 0.9	$ -	$ -	$ -
Accounts payable and accrued liabilities	2	-	102.8	102.8	-	108.5	108.5
Liabilities directly associated with assets held for sale (Notes 6, 12)	2	-	0.3	0.3	-	-	-
Long-term debt (Note 11)	2	-	84.1	84.1	-	-	-
Lease liabilities (Note 12)	2	-	19.9	19.9	-	23.2	23.2
Total financial liabilities		$ -	$ 208.0	$ 208.0	$ -	$ 131.7	$ 131.7

(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.

The Company held cash and cash equivalents of $2.3 million at December 31, 2023 (2022: $15.8 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.

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.

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

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

(e) Financial risk management (continued)

(i) Credit risk (continued)

Accounts receivable (continued)

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, 2023 and 2022.

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

	December 31, 2023	December 31, 2022
Not past due	$ 49.1	$ 58.1
Past due 0-30 days	1.8	2.4
Greater than 30 days past due	-	-
	$ 50.9	$ 60.5

Other assets

The Company has recognized a long-term receivable from the DoC for recovery of export tax and accrued interest thereon totalling $70.8 million (see Note 20(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 2023 and 2022.

(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, 2023, an increase of 1% in interest rates would result in a decrease of $0.9 million to annual net income (2022: $negligible decrease). 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.

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.

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

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

(e) Financial risk management (continued)

(iii) Currency risk (continued)

During 2023, 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, 2023, the Company had outstanding obligations to sell an aggregate USD$13.0 million at an average exchange rate of CAD$1.3279 per USD with maturities through January 4, 2024 (2022: USD$16.0 million at an average exchange rate of CAD$1.3633 per USD).

	Years ended December 31, 2023	2022
Fair value of asset, beginning of year	$ 0.1	$ 1.1
Fair value of asset at December 31	-	0.1
Change in unrealized foreign currency losses	(0.1)	(1.0)
Realized foreign currency gains (losses) on settled contracts	1.2	(1.8)
Foreign currency gains (losses) recognized in revenue	$ 1.1	$ (2.8)

Forward contracts in a liability position are included in accounts payable and accrued liabilities on the consolidated statements 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, 2023 (2022: $0.1 million loss).

Certain receivable balances at December 31, 2023 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 at December 31, 2023, the Company's USD denominated accounts and other receivables totaled USD$17.2 million. An increase of 1% in the value of the Canadian dollar relative to the USD would result in a decrease of $0.3 million to accounts and other receivables (2022: $0.3 million decrease).

As at December 31, 2023, the Company held USD$0.1 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 negligible decrease to cash and cash equivalents (2022: $0.1 million decrease).

(iv) Commodity price risk

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

(v) Liquidity risk

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

As at December 31, 2023, the Company had $146.4 million (2022: $234.0 million) available under its Credit Facility. The following are the contractual maturities of financial liabilities, including estimated interest payments:

	Carrying amount	Contractual cash flows	1 year or less	2 – 3 years	4 – 5 Years	More than 5 years
Bank indebtedness	$ 0.9	$ 0.9	$ 0.9	$ -	$ -	$ -
Accounts payable and accrued liabilities	102.8	102.8	102.8	-	-	-
Lease liabilities[1]	20.2	21.9	8.1	10.0	2.0	1.8
Long-term debt	84.1	96.4	8.0	88.4	-	-
	$ 208.0	$ 222.0	$ 119.8	$ 98.4	$ 2.0	$ 1.8

1 Includes liabilities directly associated with assets held for sale

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

28. Related parties

Accounting policy

Key management personnel are the Company's directors and executive officers as disclosed in its 2023 and 2022 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, 2023	2022
Salaries, directors' fees and short-term benefits	$ 6.2	$ 10.0
Post-employment benefits	0.9	0.9
Share-based compensation, including mark-to-market adjustment	(0.4)	(1.7)
	$ 6.7	$ 9.2

As at December 31, 2023, $6.2 million of key management compensation costs were included in accounts payable and accrued liabilities and other liabilities (2022: $10.0 million).

29. Expense categorization

Expenses by function:

	Years ended December 31, 2023	2022
Administration	$ 30.9	$ 31.6
Distribution expenses	103.4	136.2
Cost of goods sold	966.6	1,189.5
	$ 1,100.9	$ 1,357.3

Distribution expenses include $15.9 million of export taxes net of recoveries (2022: $20.9 million). See Note 20(a).

Selected costs by nature:

	Years ended December 31, 2023	2022
Compensation costs	$ 200.2	$ 215.9
Amortization in costs of goods sold	51.5	47.9
Amortization in selling and administration	2.2	2.3

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

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