



Western Forest Products Inc.
DEFINING A HIGHER STANDARD™

Western Forest Products Inc.

Unaudited Condensed Consolidated Interim Financial Statements

For the three and six months ended June 30, 2023 and 2022

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

	June 30, 2023	December 31, 2022
Assets		
Current assets:		
Cash and cash equivalents	\$ 3.2	\$ 15.8
Trade and other receivables	65.3	60.5
Inventory ^(Note 5)	226.3	224.8
Prepaid expenses and other assets	19.8	21.3
Assets held for sale ^(Note 6)	11.4	-
Income taxes receivable	10.5	17.4
	<u>336.5</u>	<u>339.8</u>
Non-current assets:		
Property, plant and equipment ^(Note 7)	351.6	364.7
Timber licenses	94.3	96.3
Biological assets ^(Note 8)	49.1	49.1
Other assets ^(Note 9)	72.7	75.7
Goodwill	6.9	7.0
Deferred income tax assets	0.7	0.2
	<u>\$ 911.8</u>	<u>\$ 932.8</u>
Liabilities and Equity		
Current liabilities:		
Bank indebtedness	\$ 1.0	\$ -
Accounts payable and accrued liabilities	109.7	108.5
Liabilities directly associated with assets held for sale ^(Note 6)	0.3	-
Income taxes payable	0.2	0.2
Lease liabilities	6.2	6.8
Reforestation obligation ^(Note 11)	8.3	8.3
Deferred revenue ^{(Notes 16, 21(c))}	2.0	2.0
	<u>127.7</u>	<u>125.8</u>
Non-current liabilities:		
Long-term debt ^(Note 10)	36.8	-
Lease liabilities	14.6	16.4
Reforestation obligation ^(Note 11)	13.5	13.8
Other liabilities ^(Note 13)	11.5	15.4
Deferred revenue ^{(Notes 16, 21(c))}	43.5	44.5
Deferred income tax liabilities	60.6	65.2
	<u>308.2</u>	<u>281.1</u>
Equity:		
Share capital ^(Note 14)	405.4	405.4
Contributed surplus	8.6	9.1
Translation reserve	1.8	3.6
Retained earnings	183.7	229.1
Total equity attributable to equity shareholders of the Company	<u>599.5</u>	<u>647.2</u>
Non-controlling interest	4.1	4.5
	<u>603.6</u>	<u>651.7</u>
	<u>\$ 911.8</u>	<u>\$ 932.8</u>

Commitments and contingencies ^(Note 21)

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

Approved on behalf of the Board:

"Daniel Nocente"
Chair

"Steven Hofer"
President & Chief Executive Officer

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

	Three months ended June 30,		Six months ended June 30,	
	2023	2022	2023	2022
Revenue ^(Note 16)	\$ 276.0	\$ 437.4	\$ 539.8	\$ 797.0
Costs and expenses:				
Cost of goods sold	263.5	328.5	506.1	585.2
Freight	21.0	31.1	43.6	57.1
Export tax ^{(Note 21(a))}	6.2	14.7	10.9	26.2
Selling and administration	10.4	9.7	22.4	22.9
	<u>301.1</u>	<u>384.0</u>	<u>583.0</u>	<u>691.4</u>
Operating income (loss) prior to restructuring and other items	(25.1)	53.4	(43.2)	105.6
Operating restructuring items ^(Note 17)	(1.6)	(0.2)	(6.8)	(0.8)
Other income (expense) ^(Note 18)	(0.8)	0.2	(0.9)	0.1
	<u>(27.5)</u>	<u>53.4</u>	<u>(50.9)</u>	<u>104.9</u>
Operating income (loss)	(27.5)	53.4	(50.9)	104.9
Finance costs	(0.5)	(0.3)	(0.7)	(0.7)
	<u>(28.0)</u>	<u>53.1</u>	<u>(51.6)</u>	<u>104.2</u>
Income (loss) before income taxes	(28.0)	53.1	(51.6)	104.2
Income tax expense (recovery) ^(Note 19)				
Current	(6.2)	14.9	(8.2)	30.3
Deferred	(1.1)	(0.4)	(5.0)	(2.7)
	<u>(7.3)</u>	<u>14.5</u>	<u>(13.2)</u>	<u>27.6</u>
Net income (loss)	(20.7)	38.6	(38.4)	76.6
Net income (loss) attributable to equity shareholders of the Company	(21.0)	38.1	(38.0)	75.9
Net income (loss) attributable to non-controlling interest	0.3	0.5	(0.4)	0.7
	<u>(20.7)</u>	<u>38.6</u>	<u>(38.4)</u>	<u>76.6</u>
Other comprehensive income (loss)				
Items that will not be reclassified to profit or loss:				
Employee future benefits actuarial gain (loss)	(0.4)	0.4	0.2	3.6
Income tax recovery (expense) ^(Note 19)	0.1	(0.1)	(0.1)	(1.0)
Total items that will not be reclassified to profit or loss	<u>(0.3)</u>	<u>0.3</u>	<u>0.1</u>	<u>2.6</u>
Items that may be reclassified subsequently to profit or loss:				
Foreign currency translation differences for foreign operations	(1.6)	2.2	(1.8)	1.4
Total comprehensive income (loss)	<u>\$ (22.6)</u>	<u>\$ 41.1</u>	<u>\$ (40.1)</u>	<u>\$ 80.6</u>
Earnings (loss) per share (in dollars) ^(Note 20)				
Basic and diluted	\$ (0.07)	\$ 0.12	\$ (0.12)	\$ 0.23

Western Forest Products Inc.
Condensed Consolidated Statements of Changes in Equity

(Expressed in millions of Canadian dollars) (unaudited)

	Share Capital	Contributed Surplus	Translation Reserve	Retained Earnings	Non- controlling Interest	Total Equity
Balance at December 31, 2021	\$ 420.8	\$ 9.0	\$ (2.2)	\$ 184.5	\$ 5.1	\$ 617.2
Net income	-	-	-	75.9	0.7	76.6
Other comprehensive income (loss):						
Employee future benefits actuarial gain	-	-	-	3.6	-	3.6
Income tax expense on actuarial gain ^(Note 19)	-	-	-	(1.0)	-	(1.0)
Foreign currency translation differences for foreign operations	-	-	1.4	-	-	1.4
Total comprehensive income	-	-	1.4	78.5	0.7	80.6
Stock options recognized in equity ^{(Note 15(a))}	-	0.1	-	-	-	0.1
Exercise of stock options ^{(Notes 14, 15(a))}	0.1	(0.1)	-	(0.1)	-	(0.1)
Repurchase of shares ^(Note 14)	(4.3)	-	-	(3.0)	-	(7.3)
Dividends	-	-	-	(7.3)	-	(7.3)
Distribution to a non-controlling interest	-	-	-	-	(0.7)	(0.7)
Total transactions with owners, recorded directly in equity	(4.2)	-	-	(10.4)	(0.7)	(15.3)
Balance at June 30, 2022	\$ 416.6	\$ 9.0	\$ (0.8)	\$ 252.6	\$ 5.1	\$ 682.5
Balance at December 31, 2022	\$ 405.4	\$ 9.1	\$ 3.6	\$ 229.1	\$ 4.5	\$ 651.7
Net loss	-	-	-	(38.0)	(0.4)	(38.4)
Other comprehensive income (loss):						
Employee future benefits actuarial gain	-	-	-	0.2	-	0.2
Income tax expense on actuarial gain ^(Note 19)	-	-	-	(0.1)	-	(0.1)
Foreign currency translation differences for foreign operations	-	-	(1.8)	-	-	(1.8)
Total comprehensive loss	-	-	(1.8)	(37.9)	(0.4)	(40.1)
Stock options recognized in equity ^{(Note 15(a))}	-	(0.1)	-	-	-	(0.1)
Exercise of stock options ^{(Notes 14, 15(a))}	-	(0.4)	-	0.4	-	-
Dividends	-	-	-	(7.9)	-	(7.9)
Total transactions with owners, recorded directly in equity	-	(0.5)	-	(7.5)	-	(8.0)
Balance at June 30, 2023	\$ 405.4	\$ 8.6	\$ 1.8	\$ 183.7	\$ 4.1	\$ 603.6

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

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

	Three months ended June 30,		Six months ended June 30,	
	2023	2022	2023	2022
Cash provided by (used in):				
Operating activities:				
Net income (loss)	\$ (20.7)	\$ 38.6	\$ (38.4)	\$ 76.6
Items not involving cash:				
Amortization of property, plant and equipment ^(Note 7)	12.2	11.8	24.3	23.5
Amortization of timber licenses	1.0	1.0	2.0	2.0
Loss (gain) on disposal of property, plant, and equipment ^(Note 7)	(0.2)	0.1	(0.1)	(1.3)
Amortization of deferred revenue ^(Note 16)	(0.5)	(0.5)	(1.0)	(1.0)
Finance costs	0.5	0.3	0.7	0.7
Income tax (recovery) expense ^(Note 19)	(7.3)	14.5	(13.2)	27.6
Change in fair value of biological assets ^(Note 8)	(0.1)	-	(0.2)	0.5
Change in reforestation obligation ^(Note 11)	(0.9)	0.9	(0.5)	0.7
Share-based compensation, including mark-to-market adjustment ^(Note 15)	0.1	(2.4)	0.7	(1.4)
Change in employee future benefits obligation ^(Note 12)	(0.2)	(0.5)	(0.5)	(1.0)
Foreign exchange and other	(0.6)	(3.2)	(0.2)	0.2
Income taxes received (paid)	15.2	(29.6)	15.1	(88.0)
	(1.5)	31.0	(11.3)	39.1
Changes in non-cash working capital items:				
Trade and other receivables	(2.0)	4.3	(3.3)	(10.4)
Inventory	(1.0)	(31.3)	(4.3)	(58.6)
Prepaid expenses and other assets	4.7	1.1	1.4	(6.9)
Accounts payable and accrued liabilities	6.8	16.9	(1.4)	23.0
	8.5	(9.0)	(7.6)	(52.9)
	7.0	22.0	(18.9)	(13.8)
Investing activities:				
Additions to property, plant and equipment ^(Note 7)	(11.6)	(6.9)	(19.1)	(12.9)
Proceeds of property, equipment and other disposals	1.9	0.2	2.1	1.9
Advances and loans	(0.2)	-	(1.3)	-
Deposits on purchase of equipment	-	-	-	(2.0)
	(9.9)	(6.7)	(18.3)	(13.0)
Financing activities:				
Drawings on credit facility ^(Note 10)	11.0	-	37.0	-
Bank indebtedness	-	-	1.0	-
Equipment loan	0.1	-	0.1	-
Interest received (paid)	(0.9)	0.1	(1.2)	(0.1)
Lease payments	(2.5)	(2.0)	(4.4)	(3.8)
Repurchase of shares ^(Note 14)	-	-	-	(7.3)
Dividends	(3.9)	(4.0)	(7.9)	(7.3)
Distributions to a non-controlling interest	-	-	-	(0.4)
	3.8	(5.9)	24.6	(18.9)
Increase (decrease) in cash and cash equivalents	0.9	9.4	(12.6)	(45.7)
Cash and cash equivalents, beginning of period	2.3	74.9	15.8	130.0
Cash and cash equivalents, June 30	\$ 3.2	\$ 84.3	\$ 3.2	\$ 84.3

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

Western Forest Products Inc.

Notes to the Unaudited Condensed Consolidated Interim Financial Statements

Three and six months ended June 30, 2023 and 2022

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

1. Reporting entity

Western Forest Products Inc. ("Western" or the "Company") is an integrated softwood forest products company, incorporated and domiciled in Canada, operating in the coastal region of British Columbia ("BC") and Washington State. The address of the Company's head office is Suite 800 – 1055 West Georgia Street, Vancouver, BC, Canada. The unaudited condensed consolidated interim financial statements as at and for the three and six months ended June, 2023 and 2022 comprise the financial results of the Company and its subsidiaries. The Company's primary business is the sale of lumber and logs, which includes timber harvesting, sawmilling logs into specialty lumber, value-added lumber and glulam remanufacturing and wholesaling purchased lumber. The Company is listed on the Toronto Stock Exchange ("TSX"), under the symbol WEF.

2. Basis of preparation

(a) Statement of compliance

These unaudited condensed consolidated interim financial statements ("interim financial statements") have been prepared in accordance with International Accounting Standards ("IAS") 34, *Interim Financial Reporting*. These interim financial statements do not include all of the disclosures required by International Financial Reporting Standards ("IFRS") for annual financial statements, and should be read in conjunction with the Company's annual consolidated financial statements for the year ended December 31, 2022, available at www.westernforest.com or www.sedarplus.ca. Certain comparative prior period figures have been reclassified to conform to the current year's presentation. References to the three and six months ended June 30 may be referred to as Q2 and YTD, respectively.

The interim financial statements were authorized for issue by the Board of Directors on August 3, 2023.

(b) Basis of measurement

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

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

(c) Functional and presentation currency

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

3. Significant accounting policies

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

4. Seasonality of operations

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

Western Forest Products Inc.

Notes to the Unaudited Condensed Consolidated Interim Financial Statements

Three and six months ended June 30, 2023 and 2022

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

5. Inventory

	June 30, 2023			December 31, 2022		
	Gross carrying value	Provisions	Lower of cost and net realizable value	Gross carrying value	Provisions	Lower of cost and net realizable value
Logs	\$ 156.8	\$ (28.1)	\$ 128.7	\$ 161.0	\$ (28.2)	\$ 132.8
Lumber	100.4	(23.5)	76.9	94.2	(24.9)	69.3
Supplies and other	20.7	-	20.7	22.7	-	22.7
	<u>\$ 277.9</u>	<u>\$ (51.6)</u>	<u>\$ 226.3</u>	<u>\$ 277.9</u>	<u>\$ (53.1)</u>	<u>\$ 224.8</u>

The carrying amount of inventory recorded at net realizable value was \$105.6 million at June 30, 2023 (December 31, 2022: \$98.4 million), with the remaining inventory recorded at cost.

For the three months and six months ended June 30, 2023, \$263.5 million and \$506.1 million (Q2 2022 and YTD 2022: \$328.5 million and \$585.2 million, respectively) of inventory was charged to cost of goods sold. This includes an increase in the provision for write-down to net realizable value of \$8.5 million and a decrease of \$1.5 million for the three and six months ended June 30, 2023, respectively (Q2 2022 and YTD 2022: increase of \$11.5 million and \$8.3 million, respectively).

6. Assets held for sale

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

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

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

	June 30, 2023
Inventory	\$ 2.5
Prepaid expenses and other assets	0.5
Property, plant and equipment	8.4
Assets held for sale	<u>\$ 11.4</u>
Lease liabilities held for sale	<u>\$ 0.3</u>

Western Forest Products Inc.

Notes to the Unaudited Condensed Consolidated Interim Financial Statements

Three and six months ended June 30, 2023 and 2022

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

7. Property, plant and equipment

	Land	Buildings and equipment	Projects	Logging roads	Total, excluding right of use assets	Right of use assets	Total
Cost							
Balance at December 31, 2021	\$ 58.6	\$ 445.6	\$ 15.5	\$ 234.3	\$ 754.0	\$ 33.5	\$ 787.5
Acquisition	-	5.6	-	-	5.6	2.1	7.7
Additions	-	0.2	41.4	5.9	47.5	9.5	57.0
Disposals	(0.1)	(7.0)	(0.2)	-	(7.3)	(2.0)	(9.3)
Transfers	-	35.2	(38.5)	3.3	-	-	-
Effect of movements in exchange rates	1.0	3.9	(2.0)	2.0	4.9	0.5	5.4
Balance at December 31, 2022	59.5	483.5	16.2	245.5	804.7	43.6	848.3
Additions	-	-	15.4	3.9	19.3	2.5	21.8
Reclassification to asset held for sale	(2.1)	(17.2)	-	-	(19.3)	(0.5)	(19.8)
Disposals	(0.1)	(0.3)	(0.3)	-	(0.7)	(1.3)	(2.0)
Transfers	-	11.4	(12.0)	0.6	-	-	-
Effect of movements in exchange rates	(0.3)	(1.3)	-	-	(1.6)	(0.2)	(1.8)
Balance at June 30, 2023	\$ 57.0	\$ 476.1	\$ 19.3	\$ 250.0	\$ 802.4	\$ 44.1	\$ 846.5
Accumulated amortization							
Balance at December 31, 2021		\$ 226.6		\$ 202.1	\$ 428.7	\$ 15.6	\$ 444.3
Amortization		29.5		10.0	39.5	6.7	46.2
Disposals		(6.0)		-	(6.0)	(1.8)	(7.8)
Effect of movements in exchange rates		0.7		-	0.7	0.2	0.9
Balance at December 31, 2022		250.8		212.1	462.9	20.7	483.6
Amortization		15.4		5.1	20.5	3.8	24.3
Reclassification to asset held for sale		(11.2)		-	(11.2)	(0.2)	(11.4)
Disposals		(0.3)		-	(0.3)	(1.1)	(1.4)
Effect of movements in exchange rates		(0.2)		-	(0.2)	-	(0.2)
Balance at June 30, 2023		\$ 254.5		\$ 217.2	\$ 471.7	\$ 23.2	\$ 494.9
Carrying amounts							
At December 31, 2022	\$ 59.5	\$ 232.7	\$ 16.2	\$ 33.4	\$ 341.8	\$ 22.9	\$ 364.7
At June 30, 2023	\$ 57.0	\$ 221.6	\$ 19.3	\$ 32.8	\$ 330.7	\$ 20.9	\$ 351.6

The Company utilized \$0.2 million of cash deposits in the first six months ended June 30, 2023 (YTD 2022: \$3.1 million) as equipment was delivered.

Western Forest Products Inc.

Notes to the Unaudited Condensed Consolidated Interim Financial Statements

Three and six months ended June 30, 2023 and 2022

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

8. Biological assets

Reconciliation of carrying amount

	Three months ended June 30,		Six months ended June 30,	
	2023	2022	2023	2022
Carrying value, beginning	\$ 49.1	\$ 48.6	\$ 49.1	\$ 49.1
Change in fair value due to growth and pricing	0.1	0.3	0.2	0.6
Harvested timber transferred to inventory	(0.1)	(0.3)	(0.2)	(1.1)
Carrying value, June 30	\$ 49.1	\$ 48.6	\$ 49.1	\$ 48.6

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

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

During the three and six months ended June 30, 2023, the Company harvested and scaled 5,824 cubic meters ("m3") and 33,711 m3 of logs, respectively (Q2 2022 and YTD 2022: 33,581 m3 and 110,514 m3, respectively), from its private timberlands, which had a fair value less costs to sell of \$131 per m3 at the date of harvest (YTD 2022: \$198 per m3).

9. Other assets

	June 30, 2023	Dec. 31, 2022
Export tax receivable and related interest ^{(Note 21 (a))}	\$ 63.8	\$ 63.7
Investments, long-term loans and advances	10.5	11.0
Note receivable	2.6	2.6
Cash deposits on equipment	-	0.2
Other	0.5	0.8
	77.4	78.3
Current portion of other assets	4.7	2.6
	\$ 72.7	\$ 75.7

10. Long-term debt

	June 30, 2023	Dec. 31, 2022
Credit facility drawings	\$ 37.0	\$ -
Equipment loan	0.1	-
	37.1	-
Less transaction costs	(0.3)	-
Long-term debt	\$ 36.8	\$ -
Available Credit Facility	\$ 250.0	\$ 250.0
Drawings on Credit Facility	(37.0)	-
Outstanding letters of credit	(19.6)	(16.0)
Unused portion of Credit Facility	\$ 193.4	\$ 234.0

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

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

Western Forest Products Inc.

Notes to the Unaudited Condensed Consolidated Interim Financial Statements

Three and six months ended June 30, 2023 and 2022

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

10. Long-term debt (continued)

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

The Company's Credit Facility was drawn by \$37.0 million as at June 30, 2023 (December 31, 2022: \$nil). The Company was in compliance with its financial covenants as at June 30, 2023.

11. Reforestation obligation

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

	Three months ended June 30,		Six months ended June 30,	
	2023	2022	2023	2022
Reforestation obligation, beginning	\$ 22.6	\$ 22.3	\$ 22.1	\$ 22.4
Provision charged	2.2	4.9	3.5	6.7
Expenditures	(3.1)	(4.0)	(4.0)	(6.0)
Unwind of discount	0.1	0.1	0.2	0.2
	21.8	23.3	21.8	23.3
Less current portion	8.3	9.4	8.3	9.4
Long term reforestation obligation, June 30	\$ 13.5	\$ 13.9	\$ 13.5	\$ 13.9

The reforestation expenditures are expected to occur over the next one to ten years and have been discounted at risk-free rates of 3.27% to 5.15% (YTD 2022: 3.05% to 3.18%). The total undiscounted amount of the estimated future expenditures required to settle the reforestation obligation at June 30, 2023 is \$24.3 million (December 31, 2022: \$24.5 million). Reforestation expense incurred on current production is included in cost of goods sold and the unwinding of discount, or accretion cost, is included in finance costs.

12. Employee future benefits

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

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

	June 30, 2023	Dec. 31, 2022
Present value of obligations	\$ 92.6	\$ 92.9
Fair value of plan assets	(88.2)	(88.0)
Liability recognized in the statement of financial position ^(Note 13)	\$ 4.4	\$ 4.9

The change in the liability recognized in the statement of financial position at June 30, 2023 resulted primarily from higher returns on plan assets, partially offset by a decrease in the discount rate used to value the defined benefit obligations. The discount rate used as at June 30, 2023 was 5.0% per annum (December 31, 2022: 5.20% per annum).

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

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13. Other liabilities

	Current	Non-current	Total
As at June 30, 2023			
Defined benefit employee future benefits obligation (Note 12)	\$ -	\$ 4.4	\$ 4.4
Defined contribution employee future benefits obligation	-	1.7	1.7
Environmental provision	1.8	1.8	3.6
Deferred share unit plan liabilities (Note 15(b))	2.5	-	2.5
Performance share unit plan liabilities (Note 15(c))	1.9	0.5	2.4
Restricted share unit plan liabilities (Note 15(d))	1.0	1.2	2.2
Other	-	1.9	1.9
	<u>\$ 7.2</u>	<u>\$ 11.5</u>	<u>\$ 18.7</u>
As at December 31, 2022			
Defined benefit employee future benefits obligation (Note 12)	\$ -	\$ 4.9	\$ 4.9
Defined contribution employee future benefits obligation	-	2.7	2.7
Environmental provision	1.9	1.8	3.7
Deferred share unit plan liabilities (Note 15(b))	2.4	-	2.4
Performance share unit plan liabilities (Note 15(c))	3.8	2.1	5.9
Restricted share unit plan liabilities (Note 15(d))	0.4	1.5	1.9
Other	-	2.4	2.4
	<u>\$ 8.5</u>	<u>\$ 15.4</u>	<u>\$ 23.9</u>

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

14. Share capital

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

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

No shares were repurchased under the NCIB in the first six months ended June 30, 2023 (YTD 2022: 3,379,027 shares for \$7.3 million at an average price of \$2.17 per share, with charges of \$4.3 million and \$3.0 million to share capital and retained earnings, respectively). 8,767,382 common shares have been repurchased and cancelled under the renewed NCIB at an average price per common share of \$1.48.

On August 3, 2023, the NCIB was renewed 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 public float outstanding as of August 2, 2023. The renewed NCIB expires August 10, 2024.

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

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15. Share-based compensation plans

(a) Stock-option plan

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

The following table summarizes the change in options outstanding:

	Six months ended June 30, 2023		Six months ended June 30, 2022	
	Number of options	Weighted average exercise price	Number of options	Weighted average exercise price
Outstanding at December 31	15,133,457	\$ 1.72	15,247,304	\$ 1.71
Exercised	(400,000)	1.27	(250,000)	0.96
Expired	(1,000,000)	1.27	-	-
Forfeited	(2,246,778)	1.64	-	-
Outstanding at June 30	11,486,679	\$ 1.79	14,997,304	\$ 1.72

For the three and six months ended June 30, 2023, the Company recorded a compensation recovery in respect of options of \$nil and \$0.1 million, respectively (Q2 2022 and YTD 2022: \$nil and \$0.1 million expense, respectively), with a corresponding increase to contributed surplus.

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

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

	Six months ended June 30, 2023		Six months ended June 30, 2022	
	Number of DSUs	Weighted average unit value ¹	Number of DSUs	Weighted average unit value ¹
Outstanding at December 31	2,067,371	\$ 1.45	2,288,822	\$ 1.43
Granted ¹	385,309	1.07	240,816	1.64
Redeemed	-	-	(97,500)	1.09
Outstanding at June 30	2,452,680	\$ 1.39	2,432,138	\$ 1.46

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

For the three and six months ended June 30, 2023, the Company recorded a compensation recovery for DSUs of \$0.1 million and \$0.2 million, respectively (Q2 2022 and YTD 2022: \$1.3 million and \$1.5 million recovery, respectively), with a corresponding change to accounts payable and accrued liabilities.

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

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

	Six months ended June 30, 2023		Six months ended June 30, 2022	
	Number of PSUs	Weighted average unit value ¹	Number of PSUs	Weighted average unit value ¹
Outstanding at December 31	3,591,951	\$ 1.46	3,538,407	\$ 1.40
Granted ¹	1,590,862	1.30	941,768	2.07
Redeemed	(1,655,262)	1.08	(718,165)	1.89
Forfeited	-	-	(112,919)	1.46
Outstanding at June 30	3,527,551	\$ 1.56	3,649,091	\$ 1.47

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

For the three and six months ended June 30, 2023, the Company recorded a compensation expense for PSUs of \$nil and \$0.2 million (Q2 2022 and YTD 2022: \$1.0 million and \$0.2 million recovery, respectively), with corresponding changes to accounts payable and accrued liabilities and other liabilities.

Western Forest Products Inc.

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15. Share-based compensation plans (continued)

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

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

	Six months ended June 30, 2023		Six months ended June 30, 2022	
	Number of RSUs	Weighted average unit value ¹	Number of RSUs	Weighted average unit value ¹
Outstanding at December 31	3,438,775	\$ 1.61	2,201,462	\$ 1.52
Granted ¹	1,506,383	1.30	752,050	2.07
Redeemed	(341,235)	1.08	-	-
Forfeited	-	-	(89,095)	1.56
Outstanding at June 30	4,603,923	\$ 1.55	2,864,417	\$ 1.66

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

For the three and six months ended June 30, 2023, the Company recorded compensation expense for RSUs of \$0.2 million and \$0.6 million, respectively (Q2 2022 and YTD 2022: 0.1 million recovery and \$0.2 million expense, respectively) with corresponding changes in accounts payable and accrued liabilities and to other liabilities.

16. Revenue

Disaggregation of revenue

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

	Three months ended June 30,		Six months ended June 30,	
	2023	2022	2023	2022
Primary geographic markets				
Canada	\$ 102.9	\$ 166.5	\$ 207.0	\$ 270.6
United States	109.6	142.7	198.2	271.2
Japan	28.4	58.5	54.4	120.1
China	17.6	26.8	43.3	56.5
Other	12.8	42.9	29.9	78.6
Europe	4.7	-	7.0	-
	<u>\$ 276.0</u>	<u>\$ 437.4</u>	<u>\$ 539.8</u>	<u>\$ 797.0</u>
Major Products				
Lumber	\$ 212.4	\$ 351.8	\$ 423.4	\$ 665.7
Logs	52.8	70.8	91.4	103.5
By-products and other	10.8	14.8	25.0	27.8
	<u>\$ 276.0</u>	<u>\$ 437.4</u>	<u>\$ 539.8</u>	<u>\$ 797.0</u>

Contract balances

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

	June 30, 2023	Dec. 31, 2022
Trade and other receivables	\$ 65.3	\$ 60.0
Other investments and advances	3.3	1.4
Contract liabilities	<u>45.5</u>	<u>46.5</u>

Contract liabilities relate to the consideration received from a customer for a long-term fibre supply contract and are recognized as deferred revenue, for which revenue is recognized straight-line over the term of the contract (see Note 21(c)). The Company recognized related revenue of \$0.5 million and \$1.0 million for the three and six months ended June 30, 2023 (Q2 2022 and YTD 2022: \$0.5 million and \$1.0 million, respectively).

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17. Operating restructuring items

	Three months ended June 30,		Six months ended June 30,	
	2023	2022	2023	2022
Retirement and other benefits	\$ 1.5	\$ -	\$ 6.6	\$ -
Other	0.1	0.2	0.2	0.8
	<u>\$ 1.6</u>	<u>\$ 0.2</u>	<u>\$ 6.8</u>	<u>\$ 0.8</u>

18. Other income (expense)

	Three months ended June 30,		Six months ended June 30,	
	2023	2022	2023	2022
Gain (loss) on disposal of property, plant, and equipment	\$ 0.2	\$ (0.1)	\$ 0.1	\$ 1.3
Foreign exchange gain (loss)	(1.6)	0.6	(1.6)	(0.2)
Other	0.6	(0.3)	0.6	(1.0)
	<u>\$ (0.8)</u>	<u>\$ 0.2</u>	<u>\$ (0.9)</u>	<u>\$ 0.1</u>

19. Income taxes

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

	Three months ended June 30,		Six months ended June 30,	
	2023	2022	2023	2022
Income (loss) before income taxes	\$ (28.0)	\$ 53.1	\$ (51.6)	\$ 104.2
Income tax expense (recovery) at statutory rate of 27%	\$ (7.5)	\$ 14.3	\$ (13.9)	\$ 28.1
Difference in tax rates	-	(0.4)	0.2	(0.8)
Other permanent differences	0.2	0.6	0.5	0.8
Change in unrecognized deductible temporary differences	-	(0.1)	-	-
Other	-	0.1	-	(0.5)
	<u>\$ (7.3)</u>	<u>\$ 14.5</u>	<u>\$ (13.2)</u>	<u>\$ 27.6</u>
Recognized in other comprehensive income (loss)				
Deferred tax expense (recovery)	<u>\$ (0.1)</u>	<u>\$ 0.1</u>	<u>\$ 0.1</u>	<u>\$ 1.0</u>

Western Forest Products Inc.

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20. Earnings (loss) per share

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

	Three months ended June 30, 2023			Three months ended June 30, 2022		
	Net loss attributable to equity shareholders	Weighted average number of shares	Per share	Net income attributable to equity shareholders	Weighted average number of shares	Per share
Issued shares, beginning of period		316,745,557			325,510,128	
Effect of shares:						
Issued in the quarter		-			-	
Repurchased in the quarter		-			-	
Basic earnings (loss) per share	\$ (21.0)	316,745,557	\$ (0.07)	\$ 38.1	325,510,128	\$ 0.12
Effective of dilutive securities:						
Stock options*		91,153			2,694,556	
Diluted earnings (loss) per share	\$ (21.0)	316,745,557	\$ (0.07)	\$ 38.1	328,204,684	\$ 0.12
	Six months ended June 30, 2023			Six months ended June 30, 2022		
	Net loss attributable to equity shareholders	Weighted average number of shares	Per share	Net income attributable to equity shareholders	Weighted average number of shares	Per share
Issued shares at December 31		316,742,746			328,780,570	
Effect of shares:						
Issued in the first six months		2,066			76,789	
Repurchased in the first six months		-			(3,109,578)	
Basic earnings (loss) per share	\$ (38.0)	316,744,812	\$ (0.12)	\$ 75.9	325,747,781	\$ 0.23
Effective of dilutive securities:						
Stock options		351,197			2,978,547	
Diluted earnings (loss) per share	\$ (38.0)	316,744,812	\$ (0.12)	\$ 75.9	328,726,328	\$ 0.23

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

21. Commitments and contingencies

(a) Softwood lumber duty dispute

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

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

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

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

As cash deposit rates exceeded final duty rates for lumber shipments made in 2017 through 2020, the Company recognized a long-term interest-bearing duty receivable totalling USD\$43.0 million (CAD\$58.2 million) in its Statement of financial position.

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21. Commitments and contingencies (continued)

(a) Softwood lumber duty dispute (continued)

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

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

On March 14, 2023, the DoC initiated its fifth AR review of CV and AD rates for shipments in 2022.

On July 27, 2023, the DoC released its final determination for CV and AD rates from its fourth AR for shipments in 2021, which resulted in an additional export tax recovery of USD\$3.7 million (CAD\$4.5 million) to be recognized in the third quarter of 2023. Effective August 1, 2023, cash deposits will continue at the revised combined duty rate of 7.99% until publication of final rates of the fifth AR in the federal register, after which time the new rates 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:

Administrative review				AR5	AR4	AR3	AR2	AR1	AR1
				Dec. 1, 2021	Dec. 1, 2020	Jan. 1, 2020			
Lumber shipment date	Aug. 1, 2023 onward	Aug. 9, 2022 through July 31, 2023	Jan. 10, 2022 through Aug. 8, 2022	through Jan. 9, 2022	through Nov. 30, 2021	through Nov. 30, 2020	Year		
							2019	2018	2017
Cash deposit rate									
CV	1.79%	3.83%	6.32%	6.31%	7.42%	14.19%	14.19%	14.19%	14.19%
AD	6.20%	4.76%	11.59%	11.59%	1.57%	6.04%	6.04%	6.04%	6.04%
Combined	7.99%	8.59%	17.91%	17.90%	8.99%	20.23%	20.23%	20.23%	20.23%
Duty rate					2021 Final	2020 Final	2019 Final	2018 Final	2017 Final
CV					1.79%	3.83%	6.32%	7.42%	7.26%
AD					6.20%	4.76%	11.59%	1.57%	1.57%
Combined					7.99%	8.59%	17.91%	8.99%	8.83%

At June 30, 2023, including interest of USD\$5.1 million (December 31, 2022: USD\$4.0 million), the duty receivable of USD\$48.1 million (December 31, 2022: USD\$47.0 million) was revalued at the quarter-end exchange rate to CAD\$63.8 million (December 31, 2022: CAD\$63.7 million).

Interest revenue of \$0.7 million and \$1.5 million for the three and six months ended June 30, 2023, respectively were recorded in finance costs (Q2 2022 and YTD 2022: \$0.2 million and \$0.3 million, respectively). Related foreign exchange losses of \$0.1 million and \$0.1 million for the three and six months ended June 30, 2023, respectively were recorded in other income (Q2 2022 and YTD 2022: \$1.2 million and \$0.7 million gains, respectively).

As at June 30, 2023, the Company had paid \$209.4 million of duties, all of which remain held in trust by US Department of Treasury (December 31, 2022: \$203.0 million). With the exception of USD\$43.0 million (CAD\$57.0 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.

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21. Commitments and contingencies (continued)

(b) *Litigation and claims*

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

(c) *Long-term fibre supply agreements*

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

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

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

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

22. Financial instruments – fair values and risk management

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

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

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

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

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

		June 30, 2023				December 31, 2022			
	Level	Mandatory at FVTPL	Amortized Cost	Total		Mandatory at FVTPL	Amortized Cost	Total	
Financial assets									
Market-based investments	2	\$ 4.7	\$ -	\$ 4.7		\$ 4.5	\$ -	\$ 4.5	
Foreign currency forward contracts	2	-	-	-		0.1	-	0.1	
Cash and cash equivalents		-	3.2	3.2		-	15.8	15.8	
Trade and other receivables		-	60.6	60.6		-	59.9	59.9	
Other investments and advances		-	3.3	3.3		-	1.4	1.4	
Export tax and related interest receivable (Note 21(a))	3	63.8	-	63.8		63.7	-	63.7	
Total financial assets		\$ 68.5	\$ 67.1	\$ 135.6		\$ 68.3	\$ 77.1	\$ 145.4	
	Level	Mandatory at FVTPL	Other Financial Liabilities	Total		Mandatory at FVTPL	Other Financial Liabilities	Total	
Financial liabilities									
Bank indebtedness (Note 10)		\$ -	\$ 1.0	\$ 1.0		\$ -	\$ -	\$ -	
Foreign currency forward contracts	2	0.1	-	0.1					
Long-term debt (Note 10)		-	37.1	37.1					
Accounts payable and accrued liabilities	2	-	112.3	112.3		-	108.5	108.5	
Lease liabilities	2	-	21.1	21.1		-	23.2	23.2	
Total financial liabilities		\$ 0.1	\$ 171.5	\$ 171.6		\$ -	\$ 131.7	\$ 131.7	

The Company enters into forward contracts to sell USD and JPY in order to mitigate a portion of the foreign currency risk. At June 30, 2023, the Company had outstanding obligations to sell an aggregate USD\$26.0 million at an average exchange rate of CAD\$1.3210 per USD with maturities through August 1, 2023.

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

	Three months ended June 30,		Six months ended June 30,	
	2023	2022	2023	2022
Fair value of (asset), beginning of period	\$ (0.2)	\$ (1.6)	\$ (0.1)	\$ (1.1)
Fair value of asset (liability) at June 30	(0.1)	(0.1)	(0.1)	(0.1)
Change in unrealized foreign currency gains (losses)	(0.3)	(1.7)	(0.2)	(1.2)
Realized foreign currency gains on settled contracts	1.1	(0.4)	1.4	0.3
Foreign currency gains (losses) recognized in revenue	\$ 0.8	\$ (2.1)	\$ 1.2	\$ (0.9)

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



Western Forest Products Inc.

DEFINING A HIGHER STANDARD™

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