



Western Forest Products Inc.
DEFINING A HIGHER STANDARD™

Western Forest Products Inc.
2024 First Quarter Report

Management's Discussion & Analysis

The following Management's Discussion and Analysis ("MD&A") reports and comments on the financial condition and results of operations of Western Forest Products Inc. (the "Company", "Western", "us", "we", or "our"), on a consolidated basis, for the three months ended March 31, 2024, to help security holders and other readers understand our Company and the key factors underlying our financial results. This discussion and analysis should be read in conjunction with our unaudited condensed consolidated interim financial statements and the notes thereto for the three months ended March 31, 2024, and our audited annual consolidated financial statements and the notes thereto and Management's Discussion and Analysis for the year ended December 31, 2023, which can be found on SEDAR+ at www.sedarplus.ca.

The Company has prepared the consolidated financial statements for the three months ended March 31, 2024, in accordance with IFRS Accounting Standards, as issued by the International Accounting Standards Board. Amounts discussed herein are based on our unaudited condensed consolidated interim financial statements and are presented in millions of Canadian dollars unless otherwise noted. Certain 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.

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, prices, demands and growth; economic conditions; legislative changes and policy initiatives; our growth, marketing, production, wholesale, operational and capital allocation plans, investments and strategies, 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, completion and implementation of integrated resource management plans or forest landscape plan pilots by First Nations, including the Plans; the timing and impact of the determination of a new allowable annual cut ("AAC") for Tree Farm Licence ("TFL") 19; the potential to execute future options for the APD property; the expected timing and cost of completion and commissioning of the Company's announced strategic investments and capital expenditures; and the Company's pursuit of potential future investment opportunities that it is exploring through planning and permitting. 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, 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 May 7, 2024.

Summary of Selected Quarterly Results ⁽¹⁾

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

| Summary Information | | Q1 2024 | Q1 2023 | Q4 2023 |
|--|--------------------|------------|------------|------------|
| Revenue | | | | |
| Lumber ⁽²⁾ | | \$ 177.6 | \$ 211.0 | \$ 178.3 |
| Logs | | 45.1 | 38.6 | 51.1 |
| By-products | | 10.5 | 13.3 | 9.9 |
| Forestry services and other ⁽³⁾ | | 6.3 | 0.9 | 7.3 |
| Total revenue | | 239.5 | 263.8 | 246.6 |
| Freight | | 16.0 | 22.6 | 16.3 |
| Export tax expense | | 4.0 | 4.7 | 4.1 |
| Stumpage | | 5.3 | 15.5 | 8.7 |
| Adjusted EBITDA ⁽⁴⁾ | | \$ (4.2) | \$ (5.0) | \$ (1.2) |
| Adjusted EBITDA margin ⁽⁴⁾ | | (2%) | (2%) | (0%) |
| Operating loss prior to restructuring and other items | | \$ (17.3) | \$ (18.1) | \$ (14.4) |
| Net loss | | (8.0) | (17.7) | (14.3) |
| Loss per share, basic and diluted | \$ per share | (0.02) | (0.05) | (0.04) |
| Operating Information ⁽⁵⁾ | | | | |
| Lumber shipments ⁽²⁾⁽⁶⁾ | mmfbm | 131 | 170 | 136 |
| Cedar | mmfbm | 30 | 30 | 30 |
| Japan Specialty | mmfbm | 29 | 15 | 33 |
| Industrial ⁽²⁾ | mmfbm | 21 | 23 | 19 |
| Commodity | mmfbm | 51 | 102 | 54 |
| Lumber production ⁽²⁾ | mmfbm | 145 | 162 | 125 |
| Lumber price, average ⁽²⁾ | \$/mfbm | \$ 1,351 | \$ 1,241 | \$ 1,313 |
| Wholesale lumber shipments | mmfbm | 7 | 5 | 4 |
| Log shipments | 000 m ³ | 337 | 245 | 446 |
| Domestic | 000 m ³ | 283 | 198 | 271 |
| Export | 000 m ³ | - | - | - |
| Pulp | 000 m ³ | 54 | 47 | 175 |
| Net production ⁽⁷⁾ | 000 m ³ | 617 | 621 | 718 |
| Saw log purchases | 000 m ³ | 129 | 192 | 200 |
| Log price, average ⁽⁸⁾ | \$/m ³ | \$ 129 | \$ 135 | \$ 112 |
| Illustrative Lumber Average Price Data ⁽⁹⁾ | | | | |
| Price Basis | | | | |
| Grn WRC #2 Clear & Btr 4x6W RL (\$C) | cif dest N Euro | \$ 8,492 | \$ 8,700 | \$ 8,550 |
| Grn WRC Deck Knotty 2x6 RL S4S | Net fob Mill | \$ 1,068 | \$ 1,469 | \$ 1,077 |
| Grn WRC #2 & Btr AG 6x6 RL | Net fob Mill | \$ 3,315 | \$ 3,315 | \$ 3,315 |
| Coast Gm WRC Std&Btr NH 3/4x4 RL S1S2E | Net fob Mill | \$ 1,100 | \$ 1,605 | \$ 1,138 |
| Grn Hem Baby Squares Merch 4-1/8x4-1/8 13' | c&f dest Japan | \$ 975 | \$ 1,222 | \$ 965 |
| Grn Dfir Baby Squares Merch 4-1/8x4-1/8 RL S4S | c&f dest Japan | \$ 1,135 | \$ 1,272 | \$ 1,125 |
| Grn Dfir (Portland) #1&Btr 100% FOHC 6x6 Rough | Net fob Mill | \$ 1,714 | \$ 1,992 | \$ 1,882 |
| Hemlock Lumber 2x4 (40x90) Metric RG Utility | cif dest Shanghai | \$ 385 | \$ 411 | \$ 366 |
| Coast KD Hem-Fir #2 & Btr 2x4 | Net fob Mill | \$ 461 | \$ 399 | \$ 404 |
| Average exchange rate – CAD to USD ⁽¹⁰⁾ | | 0.742 | 0.740 | 0.734 |
| Average exchange rate – CAD to JPY ⁽¹⁰⁾ | | 110.12 | 97.90 | 108.57 |

(1) Included in *Appendix A* is a table of selected results from the last eight quarters. Figures in the table may not equal, sum or recalculate to figures presented in the table or elsewhere due to rounding. Log data reflects British Columbia ("BC") business only.

(2) Includes glue-laminated wood products.

(3) Forestry services and other include harvesting, roadbuilding, reforestation, planning and other services.

(4) 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.

(5) "mmfbm" = millions of board feet; "mfbm" = thousands of board feet.

(6) Includes wholesale lumber shipments.

(7) Net production is sorted log production, net of residuals and waste.

(8) 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.

(9) Sourced from Random Lengths in USD/Mfbm except Hemlock Metric RG Utility that is sourced from the Forest Economic Advisors LLC China Bulletin.

(10) Canadian Dollar ("CAD"), United States Dollar ("USD"), Japanese yen ("JPY").

Summary of First Quarter 2024 Results

We reported Adjusted EBITDA of negative \$4.2 million in the first quarter of 2024, as compared to negative \$5.0 million in the same period last year. Results in the first quarter of 2024 reflect lower realized lumber prices in certain specialty lumber products and lower lumber shipments, offset by a higher specialty lumber mix, higher domestic log sales, and lower stumpage and freight rates, compared to the same period last year.

Net loss was \$8.0 million in the first quarter of 2024, as compared to a net loss of \$17.7 million in the same period last year. Operating loss prior to restructuring and other items was \$17.3 million in first quarter of 2024, as compared to a loss of \$18.1 million in the same period last year. The first quarter of 2023 included \$5.2 million in restructuring costs primarily related to the curtailment of our Alberni Pacific Division (“APD”).

Sales

Lumber revenue was \$177.6 million in the first quarter of 2024 as compared to \$211.0 million in the same period last year. The decrease of 16% was due to lower lumber shipment volumes and prices in certain lumber segments, partially offset by stronger sales mix. Our average realized lumber price increased by 9% to \$1,351 per thousand board feet in the first quarter of 2024, as compared to \$1,241 per thousand board feet in the same period last year, primarily due to an increased mix of specialty lumber shipments.

Specialty lumber shipments represented 61% of total lumber shipment volumes in the first quarter of 2024, as compared to 40% in the same period last year. Japan lumber shipment volumes increased 93% compared to the same period last year due to a reduction in supply from Europe and a decline in domestic supply in Japan resulting from a fire-related curtailment at one of Japan’s largest sawmills. Cedar and Industrial lumber shipment volumes remained relatively unchanged from the same period last year. Commodity lumber shipments declined by 50% compared to the same period last year, due to weaker market conditions.

Log revenue was \$45.1 million in the first quarter of 2024, as compared to \$38.6 million in the same period last year. The increase of 17% was due to higher log sales to balance log inventory to market conditions and fibre requirements of our manufacturing facilities, partially offset by lower average domestic log prices.

By-products revenue was \$10.5 million, as compared to \$13.3 million in the same period last year. The decrease of 21% resulted from lower chip prices and lower chip sales volumes resulting from reduced lumber production.

Contract services and other revenue were \$6.3 million, as compared to \$0.9 million in the same period last year. The increase was due to higher revenue from harvesting services provided to third parties.

Operations

Lumber production was 145 million board feet in the first quarter of 2024, as compared to 162 million board feet in the same period last year. We took market-related curtailments to match lumber production to market conditions and manage inventory levels. In addition, a shift in production from North American markets measured on a gross (“nominal”) volume basis to export markets measured on a net volume basis contributed to the reduction. A higher specialty mix of production led to increased value-added processing volumes and costs as compared to the first quarter of 2023.

We harvested 617,000 cubic metres of logs from our BC coastal operations in the first quarter of 2024, as compared to 621,000 cubic metres in the same period last year, matching harvest volumes to market conditions.

Timberlands harvest costs per cubic metre declined 13% compared to the same period last year, primarily due to lower stumpage rates.

BC Coastal sawlog purchases were 129,000 cubic metres in the first quarter of 2024, as compared to 192,000 cubic metres in the same period last year. We managed sawlog purchases to match fibre requirements at our BC manufacturing facilities.

Freight expense was \$16.0 million in the first quarter of 2024 as compared to \$22.6 million in the same period last year. The decrease of 29% was due to lower lumber shipments and lower container and trucking rates, partially offset by higher rail rates and the use of higher cost breakbulk vessels to Japan in the first quarter of 2024.

Adjusted EBITDA and operating income included \$4.0 million of countervailing duty (“CV”) and anti-dumping duty (“AD”) expense in the first quarter of 2024, as compared to \$4.7 million in the same period of 2023. Export tax expense decreased primarily due to a 24% decline in US-destined lumber shipment volumes.

Corporate and Other

Selling and administration expense was \$11.4 million in the first quarter of 2024 as compared to \$12.0 million in the same period due to reduced incentive-based compensation expense and lower spending.

Restructuring recoveries of severance were \$0.2 million in the first quarter of 2024 as compared to \$5.2 million in costs related to retirement bridging costs for APD employees in the same period last year.

Other income was \$1.8 million in the first quarter of 2024 as compared to \$0.1 million expense in the same period last year, resulting primarily from higher unrealized foreign exchange gains on revaluation of our export tax receivable.

Finance costs were \$2.1 million in the first quarter of 2024 as compared to \$0.2 million in the same period last year. Interest expense on higher average borrowings and interest rates were partially offset by increased interest revenue from the export tax receivable quarter over quarter.

Income Taxes

Income tax recoveries were \$9.4 million on a net loss before tax of \$17.4 million for an effective tax rate of 54% in the first quarter of 2024, as compared to \$5.9 million on a net loss before tax of \$23.6 million for an effective tax rate of 25% in the same period last year. The rate differential results primarily from tax basis differentials and changes in valuation allowances.

Net Loss

Net loss was \$8.0 million in the first quarter of 2024, as compared to a net loss of \$17.7 million for the same period last year. Ongoing challenging macroeconomic conditions resulted in lower lumber demand and negatively impacted our results.

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 continues to make progress on planning and investments to support accelerating the transition to higher value products.

BC Operations Strategic Investments

Our previously announced strategic investments, which included a new continuous dry kiln at our Saltair sawmill, optimization of the planer and installation of a machine stress rated ("MSR") grader at our Duke Point facility and other strategic investments are substantially complete.

In March 2024, the Company completed and commissioned, on budget, the first continuous dry kiln on the BC Coast at our Saltair sawmill at a net cost of \$12.3 million, which includes a \$1.5 million energy rebate. The new continuous kiln, which has a capacity of approximately 70 million board feet, will support increased production of higher valued products and provides environmental benefits by reducing energy consumption.

Two New Continuous Dry Kilns

Two previously announced continuous dry kiln projects, one at the Company's Duke Point sawmill in Nanaimo, BC and one at our Value-Added Division in Chemainus, BC, are in the pre-engineering and permitting phase. Each kiln will have a capacity of approximately 70 million board feet and are expected to be completed in 2025 at an estimated total cost of approximately \$35 million.

The Company is also advancing planning for potential future investment opportunities in relation to its BC Coastal manufacturing operations. These opportunities may include modernizing our primary manufacturing facilities, increasing our kiln drying and planing capacity, reducing our cost structure and expanding our engineered wood products and remanufacturing capacity. The Company is currently engaged in pre-engineering and permitting for such potential future investment opportunities. As pre-engineering and permitting is based on potential plans only, any actual future investment will be considered with a long-term view of supporting our overall business, and consider the operating environment, our business and labour partnerships, government policy, and our financial condition, cash requirements, balance sheet strength and other financial metrics that we may deem appropriate at the relevant time.

Alberni Pacific Division

On April 16, 2024, we announced the indefinite curtailment of our APD facility and intent to offer voluntary severance to the remaining sixty APD employees. Operations at the APD facility had been curtailed since fall 2022. The Company intends to move ahead with exploring other options for the property.

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.

Western is actively investing time and resources to build and foster positive working relationships with Indigenous groups within whose traditional territories we operate, including through First Nation-led integrated resource management planning initiatives across five tree farm licence ("TFL") areas, and limited partnership opportunities with First Nations with shared governance and financial interests. We continue to make progress as follows.

Sale of Ownership Interest in Mid-Island Forest Operations

On March 27, 2024, we completed the sale of a 34% interest in our newly formed La-kwa sa muqw Forestry Limited Partnership ("LFLP") to four Vancouver Island First Nations (Tlowitsis, We Wai Kai, Wei Wai Kum, and K'ómoks) (collectively, the "Nations") for gross proceeds of \$35.9 million. LFLP's assets consists of certain assets and liabilities of Western's former Mid-Island Forest Operation, including the newly-established TFL 64, created through the subdivision of Block 2 from TFL 39. The Company has a long-term fibre supply agreement in place with LFLP to support our BC manufacturing facilities. The current allowable annual cut ("AAC") of TFL 64 represents approximately 16% of Western's total current AAC.

TFL 37 Forest Landscape Plan

On March 12, 2024, the draft TFL 37 Forest Landscape Plan (“TFL 37 FLP”) and Forest Operations Plan (“TFL 37 FOP” and together with TFL 37 FLP, the “Plans”) developed under the TFL 37 FLP Pilot Project, sponsored by ‘Namgis First Nation, Western, and the Office of the Chief Forester (“Chief Forester”) within the Ministry of Forests (“Ministry”), was released for public comment. The Plans are being met with praise for providing certainty and stewardship of the project area, which includes the portion of ‘Namgis First Nation’s traditional territory in TFL 37. Once approved by the Ministry, the Plans will replace the existing Forest Stewardship Plan in guiding forest management activities for the area. The TFL 37 FLP is the first draft forest landscape plan to be brought forward for public review.

For additional details on our progress in building and fostering positive working relationships with Indigenous groups in 2023, please see “*Indigenous Relationships*” in our Management’s Discussion and Analysis for the year ended December 31, 2023.

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 and the exportation of logs. For additional details on these policy initiatives, regulatory changes and risks, please see “*Regulatory Environment*” and “*Risks and Uncertainties*” in our Management’s Discussion and Analysis for the year ended December 31, 2023.

On May 11, 2023, the British Columbia Supreme Court (“BCSC”) released its decision that Nuchatlaht First Nation (“Nuchatlaht”) had not proved its claim for Aboriginal title to a claim area that encompassed approximately 201km² of the northern half of Nootka Island (the “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. On April 17, 2024, the BCSC released its further decision that Nuchatlaht had proved its claim for Aboriginal title to certain specific sites within the Claim Area, but did not make a formal declaration of Aboriginal title or that the Forest Act no longer applies to such specific sites. A formal declaration has not yet been made both to allow Nuchatlaht and the Province to agree to the precise boundaries of the area to which their Aboriginal Title applies and also to allow the Province to make submissions with respect to the terms of a declaration and whether the declaration should be suspended for a period to allow the parties to make transitional arrangements with respect to the Aboriginal Title lands. Given a formal declaration has not been made and that it is not known whether Nuchatlaht will appeal the BCSC’s decision, accordingly, the potential impact of the Nuchatlaht decision on Western’s tenure holdings is not ascertainable at this time. For additional details on policy requirements and regulatory aspects in relation to First Nations see “*Land Claims by Indigenous Groups*” and “*Regulatory Risks*” under the heading “*Risks and Uncertainties*” in our Management’s Discussion and Analysis for the year ended December 31, 2023. For additional details on old growth logging deferrals and First Nations governments approach to such deferrals, please see the “*Old Growth Logging Deferrals*” heading in our Management’s Discussion and Analysis for the year ended December 31, 2023.

TFL 19

We expect the Chief Forester to determine a new AAC for TFL 19 in 2024. While we cannot predict the outcome of the determination, the Management Plan for TFL 19 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 within TFL 19, 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 AAC for TFL 19 or the Company’s business at this time.

Other BC Government Forest Policies and Initiatives

In January 2024, the Province announced its intent 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*. In February 2024, the Province announced that it would not proceed with the proposed amendments to the *Land Act* at this time.

Financial Position and Liquidity ⁽¹⁾

(millions of Canadian dollars except where otherwise noted)

| Selected Cash Flow Items | Q1 2024 | Q1 2023 | Q4 2023 |
|---|------------|------------|------------|
| Operating activities | | | |
| Net loss | \$ (8.0) | \$ (17.7) | \$ (14.3) |
| Amortization | 13.2 | 13.1 | 13.3 |
| Loss (gain) on disposal of property, equipment and other assets | (0.2) | 0.1 | 0.5 |
| Income tax recovery | (9.4) | (5.9) | (5.3) |
| Income taxes receipts (payments) | (0.1) | (0.1) | 0.4 |
| Share-based compensation | 0.3 | 0.6 | (0.6) |
| Finance costs | 2.1 | 0.2 | 1.8 |
| Other | (1.9) | (0.1) | - |
| | (4.0) | (9.8) | (4.2) |
| Change in non-cash working capital | (24.0) | (16.0) | 3.4 |
| Cash used in operating activities | (28.0) | (25.8) | (0.8) |
| Investing activities | | | |
| Additions to property, plant and equipment | (3.4) | (5.0) | (14.9) |
| Additions to capital logging roads | (1.4) | (2.5) | (2.3) |
| Proceeds on disposal of property, equipment and other | 0.8 | 0.2 | - |
| Advances and loans receipts (issued) | 0.1 | (1.1) | 0.1 |
| Proceeds from disposition of minority interest in subsidiary | 35.9 | - | - |
| Cash provided by (used in) investing activities | 32.0 | (8.4) | (17.1) |
| Financing activities | | | |
| Net drawings on credit facility | 1.7 | 25.9 | 21.8 |
| Bank indebtedness (repayments) | (0.4) | 1.0 | 0.4 |
| Interest payments | (2.7) | (0.3) | (2.6) |
| Lease payments | (2.4) | (1.9) | (2.4) |
| Dividends | - | (4.0) | - |
| Cash provided by (used in) financing activities | (3.8) | 20.7 | 17.2 |
| Increase (decrease) in cash | \$ 0.2 | \$ (13.5) | \$ (0.7) |
| Summary of Financial Position | | | |
| Cash and cash equivalents | \$ 2.5 | \$ 2.3 | \$ 2.3 |
| Current assets | 347.9 | 334.9 | 334.9 |
| Current liabilities | 110.8 | 121.5 | 121.0 |
| Bank indebtedness | 0.5 | 1.0 | 0.9 |
| Long-term debt | 85.6 | 25.6 | 83.8 |
| Net debt ⁽²⁾ | 83.6 | 24.3 | 82.4 |
| Equity, excluding non-controlling interest | 578.3 | 626.5 | 565.0 |
| Total liquidity ⁽³⁾⁽⁶⁾ | 142.1 | 205.4 | 147.8 |
| Financial ratios | | | |
| Current assets to current liabilities ⁽⁴⁾ | 3.14 | 2.76 | 2.77 |
| Net debt to capitalization ⁽⁵⁾⁽⁶⁾ | 13% | 4% | 13% |

(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 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 \$28.0 million in the first quarter of 2024, as compared to \$25.8 million in the same period last year. Both quarters reflect challenging macroeconomic and lumber market conditions.

Cash provided by investing activities was \$32.0 million in the first quarter of 2024 as compared to cash used of \$8.4 million during the same period last year. In the first quarter of 2024, we received gross proceeds of \$35.9 million from the sale of a 34% ownership interest in LFLP.

Cash used in financing activities was \$3.8 million in the first quarter of 2024, as compared to cash provided of \$20.7 million in the same period last year.

Liquidity and Capital Resources

Total liquidity was \$142.1 million at March 31, 2024, as compared to \$147.8 million at December 31, 2023 and \$205.4 million at March 31, 2023. Liquidity is comprised of cash and cash equivalents of \$2.5 million, and unused availability under the Company's credit facility of \$140.1 million, less \$0.5 million of bank indebtedness.

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

Based on our current forecasts, including the receipt of tax refunds of approximately \$23 million, 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 March 31, 2024.

Capital Allocation

Quarterly Dividend

In response to the weaker lumber market conditions and corresponding financial results, the Company suspended quarterly dividend payments in the fourth quarter of 2023. Thus, no dividends were paid during the first quarter of 2024, as compared to \$4.0 million during the first quarter of 2023.

Normal Course Issuer Bid ("NCIB")

No shares were purchased under our NCIB in the first quarter of 2024 or in 2023.

Capital Expenditures

We currently anticipate approximately \$50 million in capital expenditure spending in 2024. This includes approximately \$13 million of expenditures related to one of the two new continuous dry kilns. The two new continuous dry kilns are expected to be completed over 2024 and 2025 at an estimated total cost of approximately \$35 million.

Market Outlook

We are seeing some positive signs of improving demand and prices in certain lumber products relative to the first quarter of 2024. However, lumber demand and prices in the second half of 2024 will vary based on product lines and be dependent on global macroeconomic conditions.

Demand and prices for Cedar timber and premium appearance products are expected to remain stable. Demand and price for Cedar decking products are firming 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 first quarter of 2024. Lumber prices are expected to remain stable but may be impacted by further weakness in the Japanese yen to USD exchange rate.

Demand for our Industrial lumber products is generally expected to remain stable over the near-term. North American demand and prices for our commodity products should marginally improve in the second quarter of 2024 but are expected to remain volatile through the second half of 2024. In China, lumber demand and prices may slightly weaken as we progress through 2024.

We expect sawlog markets to follow conditions in the lumber markets, while residual chip pricing is expected to slightly improve in the near-term and will follow movement in the price of northern bleached softwood kraft 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*” in our Management’s Discussion and Analysis for the year ended December 31, 2023.

In the first three months of 2024, Western expensed \$4.0 million of export duties at a combined duty rate of 8.05% on its lumber shipments into the US, as compared to \$4.7 million at a combined rate of 8.59% for the same period last year. A 24% decline in the Company’s US-destined lumber shipment volumes also contributed to the lower export tax expense.

As at March 31, 2024, Western had \$228.5 million (USD \$168.8 million) of cash on deposit with the US Department of Treasury in respect of softwood lumber duties, of which \$63.1 million (USD \$46.6 million) is recognized in the Company’s consolidated statements 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 21% of our total lumber shipments for each of the first three months of 2024 and 2023.

On January 17, 2024, the Government of Canada filed a notice of intent to challenge the US International Trade Commission (“USITC”) decision to maintain duties on Canadian softwood lumber products, under Chapter 10 of the Canada-United States-Mexico Agreement.

On February 1, 2024, the Department of Commerce (“DoC”) released its preliminary determination for CV and AD rates resulting from its fifth administrative review (“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, which is 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*” in our Management’s Discussion and Analysis for the year ended December 31, 2023.

On March 5, 2024, the DoC initiated its sixth AR of CV and AD for shipments in 2023, with a completion deadline of January 31, 2025.

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

Non-GAAP Financial Measures

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

(millions of Canadian dollars except where otherwise noted)

| | Q1 2024 | Q1 2023 | Q4 2023 |
|---|------------|------------|------------|
| Adjusted EBITDA | | | |
| Net loss | \$ (8.0) | \$ (17.7) | \$ (14.3) |
| Add: | | | |
| Amortization | 13.2 | 13.1 | 13.3 |
| Operating restructuring items | (0.2) | 5.2 | 0.9 |
| Other (income) expense | (1.8) | 0.1 | 2.5 |
| Finance costs | 2.1 | 0.2 | 1.8 |
| Income tax recovery | (9.4) | (5.9) | (5.3) |
| Adjusted EBITDA | \$ (4.2) | \$ (5.0) | \$ (1.2) |
| Adjusted EBITDA margin | | | |
| Total revenue | \$ 239.5 | \$ 263.8 | \$ 246.6 |
| Adjusted EBITDA | (4.2) | (5.0) | (1.2) |
| Adjusted EBITDA margin | (2%) | (2%) | (0%) |
| Net debt to capitalization | | | |
| Net debt | | | |
| Total debt | \$ 85.6 | \$ 25.6 | \$ 83.8 |
| Bank indebtedness | 0.5 | 1.0 | 0.9 |
| Cash and cash equivalents | (2.5) | (2.3) | (2.3) |
| | \$ 83.6 | \$ 24.3 | \$ 82.4 |
| Capitalization | | | |
| Net debt | \$ 83.6 | \$ 24.3 | \$ 82.4 |
| Total equity attributable to equity shareholders of the Company | 578.3 | 626.5 | 565.0 |
| | \$ 661.9 | \$ 650.8 | \$ 647.4 |
| Net debt to capitalization | 13% | 4% | 13% |
| Total liquidity | | | |
| Cash and cash equivalents | \$ 2.5 | \$ 2.3 | \$ 2.3 |
| Available credit facility | 250.0 | 250.0 | 250.0 |
| Bank indebtedness | (0.5) | (1.0) | (0.9) |
| Credit facility drawings | (85.7) | (25.9) | (84.0) |
| Outstanding letters of credit | (24.2) | (20.0) | (19.6) |
| | \$ 142.1 | \$ 205.4 | \$ 147.8 |

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

Accounting Policies and Standards

Several new standards, and amendments to existing standards and interpretations, were not yet effective as at March 31, 2024, and have not been applied in preparing the Company's unaudited condensed consolidated interim financial statements. None of these standards are currently considered by the Company to be significant or likely to have a material impact on future financial statements.

Critical Accounting Estimates

For a review of significant management judgements affecting financial results and critical accounting estimates, please see our 2023 Annual Report, which can be found on SEDAR+ at www.sedarplus.ca. There were no changes to critical accounting estimates during the three months ended March 31, 2024.

Financial Instruments and Other Instruments

We use various financial instruments to reduce the impact of movement in foreign exchange rates on our net result. Please see our Management Discussion and Analysis for the year ended December 31, 2023 for a further discussion on our use of financial instruments. There were no changes to our use of financial instruments during the three months ended March 31, 2024.

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 March 31, 2024, surety performance and payment bonds aggregated \$48.1 million (December 31, 2023: \$49.7 million), of which \$23.0 million (December 31, 2023: \$18.6 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

Other than transactions in the normal course of business with the Board of Directors and key management personnel, the Company had no transactions between related parties in the three months ended March 31, 2024.

Risks and Uncertainties

The business of the Company is subject to several risks and uncertainties, including those described in the 2023 Annual Report which can be found on SEDAR+ at www.sedarplus.ca. Any of the risks and uncertainties described in the above-noted document could have a material adverse effect on our operations and financial condition and cash flows and, accordingly, should be carefully considered in evaluating Western's business. Except as set forth in this MD&A and the notes to our condensed consolidated interim financial statements, there were no additional risks and uncertainties identified during the three months ended March 31, 2024.

Internal Controls over Financial Reporting

There have been no changes in the Company's internal controls over financial reporting ("ICFR") during the three months ended March 31, 2024, that have materially affected, or are reasonably likely to materially affect, its ICFR.

Outstanding Share Data

As of May 7, 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 three months ended March 31, 2024, no options were granted, no options previously granted were exercised, 948,000 options expired and no options were forfeited. As of May 7, 2024, 10,538,679 stock options were outstanding under our incentive stock option plan.

Additional Information

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

Management's Discussion and Analysis – Appendix A

Summary of Selected Results for the Last Eight Quarters

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

| | 2024 | | 2023 | | | | 2022 | | |
|--|--------------------|----------|-----------|-----------|-----------|-----------|-----------|----------|----------|
| | Q1 | | Q4 | Q3 | Q2 | Q1 | Q4 | Q3 | Q2 |
| Average exchange rate – USD to CAD | 1.348 | | 1.361 | 1.341 | 1.343 | 1.352 | 1.358 | 1.305 | 1.276 |
| Average exchange rate – CAD to USD | 0.742 | | 0.734 | 0.746 | 0.745 | 0.740 | 0.737 | 0.766 | 0.783 |
| Financial performance | | | | | | | | | |
| Revenue | | | | | | | | | |
| Lumber | \$ 177.6 | | \$ 178.3 | \$ 179.9 | \$ 212.4 | \$ 211.0 | \$ 219.7 | \$ 267.1 | \$ 351.8 |
| Logs | 45.1 | | 51.1 | 38.4 | 52.8 | 38.6 | 54.9 | 72.5 | 70.8 |
| By-products | 10.5 | | 9.9 | 7.2 | 9.4 | 13.3 | 12.4 | 15.2 | 14.8 |
| Forestry services and other | 6.3 | | 7.3 | 5.6 | 1.4 | 0.9 | 4.0 | 1.2 | - |
| Total revenue | \$ 239.5 | | \$ 246.6 | \$ 231.1 | \$ 276.0 | \$ 263.8 | \$ 291.0 | \$ 356.0 | \$ 437.4 |
| Adjusted EBITDA | \$ (4.2) | | \$ (1.2) | \$ (11.6) | \$ (12.0) | \$ (5.0) | \$ (11.9) | \$ 17.3 | \$ 66.2 |
| Adjusted EBITDA margin | (2%) | | (0%) | (5%) | (4%) | (2%) | (4%) | 5% | 15% |
| Net income (loss) | \$ (8.0) | | \$ (14.3) | \$ (17.4) | \$ (20.7) | \$ (17.7) | \$ (21.4) | \$ 6.6 | \$ 38.6 |
| Earnings (loss) per share | | | | | | | | | |
| Basic and diluted | \$ (0.02) | | \$ (0.04) | \$ (0.05) | \$ (0.07) | \$ (0.05) | \$ (0.07) | \$ 0.02 | \$ 0.12 |
| Operating statistics | | | | | | | | | |
| Lumber ⁽¹⁾⁽²⁾ | | | | | | | | | |
| Production | Mmfbm | 145 | 125 | 126 | 148 | 162 | 139 | 169 | 173 |
| Shipments | Mmfbm | 131 | 136 | 130 | 153 | 170 | 155 | 179 | 197 |
| Price | \$/mfbm | \$ 1,351 | \$ 1,313 | \$ 1,388 | \$ 1,392 | \$ 1,241 | \$ 1,420 | \$ 1,495 | \$ 1,786 |
| Logs ⁽³⁾ | | | | | | | | | |
| Net production | 000 m ³ | 617 | 718 | 678 | 935 | 621 | 658 | 800 | 904 |
| Saw log purchases | 000 m ³ | 129 | 200 | 116 | 167 | 192 | 173 | 302 | 328 |
| Log availability | 000 m ³ | 746 | 918 | 794 | 1,102 | 813 | 831 | 1,102 | 1,232 |
| Shipments | 000 m ³ | 337 | 446 | 324 | 370 | 245 | 367 | 404 | 391 |
| Price ⁽⁴⁾ | \$/m ³ | \$ 129 | \$ 112 | \$ 118 | \$ 129 | \$ 135 | \$ 142 | \$ 172 | \$ 166 |
| Share repurchases and dividends | | | | | | | | | |
| Shares repurchased | # millions | - | - | - | - | - | 2.2 | 6.5 | - |
| Shares repurchased | \$ millions | \$ - | \$ - | \$ - | \$ - | \$ - | \$ 3.0 | \$ 10.0 | \$ - |
| Dividends paid | \$ millions | \$ - | \$ - | \$ 4.0 | \$ 3.9 | \$ 4.0 | \$ 3.9 | \$ 4.1 | \$ 4.0 |
| Non-GAAP financial measures | | | | | | | | | |
| Net income (loss) | | \$ (8.0) | \$ (14.3) | \$ (17.4) | \$ (20.7) | \$ (17.7) | \$ (21.4) | \$ 6.6 | \$ 38.6 |
| Add: | | | | | | | | | |
| Amortization | | 13.2 | 13.3 | 14.1 | 13.2 | 13.1 | 12.0 | 12.7 | 12.8 |
| Changes in fair value of biological assets | | - | - | - | (0.1) | - | (0.2) | (0.2) | - |
| Operating restructuring items | | (0.2) | 0.9 | (0.2) | 1.6 | 5.2 | 3.9 | (0.2) | 0.2 |
| Other expense (income) | | (1.8) | 2.5 | (2.2) | 0.8 | 0.1 | 2.0 | (4.0) | (0.2) |
| Finance costs (income) | | 2.1 | 1.8 | 0.5 | 0.5 | 0.2 | (0.1) | (0.7) | 0.3 |
| Income tax expense (recovery) | | (9.4) | (5.3) | (6.5) | (7.3) | (5.9) | (8.0) | 3.0 | 14.5 |
| Adjusted EBITDA | | \$ (4.2) | \$ (1.2) | \$ (11.6) | \$ (12.0) | \$ (5.0) | \$ (11.9) | \$ 17.3 | \$ 66.2 |
| Divided by total revenue | | 239.5 | 246.6 | 231.1 | 276.0 | 263.8 | 291.0 | 356.0 | 437.4 |
| Adjusted EBITDA margin | | (2%) | (0%) | (5%) | (4%) | (2%) | (4%) | 5% | 15% |

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

- (1) "mmfbm" = millions of board feet; "mfbm" = thousands of board feet.
- (2) Includes glulamated wood products.
- (3) Coastal BC business only. Net production is sorted log production, net of residuals and waste. Log availability is net production plus saw log purchases.
- (4) The average realized log price per cubic metre has been presented on a gross basis, which may include fee-in-lieu and shipping charges incurred on behalf of customers to facilitate sales to export markets.

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

Western Forest Products Inc.

Unaudited Condensed Consolidated Interim Financial Statements

For the three months ended March 31, 2024 and 2023

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

| | March 31, 2024 | December 31, 2023 |
|---|-------------------|----------------------|
| Assets | | |
| Current assets: | | |
| Cash and cash equivalents | \$ 2.5 | \$ 2.3 |
| Trade and other receivables | 63.5 | 50.9 |
| Inventory ^(Note 5) | 210.6 | 213.5 |
| Prepaid expenses and other assets | 37.4 | 33.9 |
| Assets held for sale ^(Note 6) | 10.5 | 10.8 |
| Income taxes receivable | 23.4 | 23.5 |
| | <u>347.9</u> | <u>334.9</u> |
| Non-current assets: | | |
| Property, plant and equipment ^(Note 7) | 349.9 | 354.4 |
| Timber licenses | 91.3 | 92.3 |
| Biological assets ^(Note 8) | 49.3 | 49.3 |
| Other assets ^(Note 9) | 80.1 | 77.4 |
| Goodwill | 7.0 | 6.9 |
| Deferred income tax assets | 0.2 | 0.2 |
| | <u>\$ 925.7</u> | <u>\$ 915.4</u> |
| Liabilities and Equity | | |
| Current liabilities: | | |
| Bank indebtedness | \$ 0.5 | \$ 0.9 |
| Accounts payable and accrued liabilities | 92.0 | 102.8 |
| Liabilities directly associated with assets held for sale ^(Note 6) | 0.4 | 0.3 |
| Income taxes payable | 0.1 | 0.2 |
| Lease liabilities | 7.0 | 6.9 |
| Reforestation obligation ^(Note 11) | 8.8 | 7.9 |
| Deferred revenue ^{(Notes 17, 22(c))} | 2.0 | 2.0 |
| | <u>110.8</u> | <u>121.0</u> |
| Non-current liabilities: | | |
| Long-term debt ^(Note 10) | 85.6 | 83.8 |
| Lease liabilities | 12.6 | 13.0 |
| Reforestation obligation ^(Note 11) | 14.2 | 14.2 |
| Other liabilities ^(Note 13) | 11.3 | 11.4 |
| Deferred revenue ^{(Notes 17, 22(c))} | 42.0 | 42.5 |
| Deferred income tax liabilities | 58.8 | 61.6 |
| | <u>335.3</u> | <u>347.5</u> |
| Equity: | | |
| Share capital ^(Note 14) | 405.4 | 405.4 |
| Contributed surplus | 8.8 | 8.8 |
| Translation reserve | 3.5 | 1.9 |
| Retained earnings | 160.6 | 148.9 |
| Total equity attributable to equity shareholders of the Company | <u>578.3</u> | <u>565.0</u> |
| Non-controlling interest ^(Note 15) | 12.1 | 2.9 |
| | <u>590.4</u> | <u>567.9</u> |
| | <u>\$ 925.7</u> | <u>\$ 915.4</u> |
| Commitments and contingencies ^(Note 22) | | |
| Subsequent event ^(Note 6) | | |

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 Loss
(Expressed in millions of Canadian dollars except for share and per share amounts) (unaudited)

| | Three months ended March 31, | |
|---|---------------------------------|------------------|
| | 2024 | 2023 |
| Revenue ^(Note 17) | \$ 239.5 | \$ 263.8 |
| Costs and expenses: | | |
| Cost of goods sold | 225.4 | 242.6 |
| Freight | 16.0 | 22.6 |
| Export tax ^{(Note 22(a))} | 4.0 | 4.7 |
| Selling and administration | 11.4 | 12.0 |
| | <u>256.8</u> | <u>281.9</u> |
| Operating loss prior to restructuring and other items | (17.3) | (18.1) |
| Operating restructuring items ^(Note 18) | 0.2 | (5.2) |
| Other income (loss) ^(Note 19) | 1.8 | (0.1) |
| | <u>(15.3)</u> | <u>(23.4)</u> |
| Operating loss | (15.3) | (23.4) |
| Finance costs | (2.1) | (0.2) |
| | <u>(17.4)</u> | <u>(23.6)</u> |
| Loss before income taxes | (17.4) | (23.6) |
| Income tax expense (recovery) ^(Note 20) | | |
| Current | 0.1 | (2.0) |
| Deferred | (9.5) | (3.9) |
| | <u>(9.4)</u> | <u>(5.9)</u> |
| Net loss | (8.0) | (17.7) |
| Net loss attributable to equity shareholders of the Company | (7.7) | (17.0) |
| Net loss attributable to non-controlling interest | (0.3) | (0.7) |
| | <u>(8.0)</u> | <u>(17.7)</u> |
| Other comprehensive income (loss) | | |
| Items that will not be reclassified to profit or loss: | | |
| Employee future benefits actuarial gain (loss) | (0.2) | 0.6 |
| Income tax recovery (expense) ^(Note 20) | 0.1 | (0.2) |
| Total items that will not be reclassified to profit or loss | <u>(0.1)</u> | <u>0.4</u> |
| Items that may be reclassified subsequently to profit or loss: | | |
| Foreign currency translation differences for foreign operations | 1.6 | (0.2) |
| Total comprehensive loss | <u>\$ (6.5)</u> | <u>\$ (17.5)</u> |
| Loss per share (in dollars) ^(Note 21) | | |
| Basic and diluted | \$ (0.02) | \$ (0.05) |

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, 2022 | \$ 405.4 | \$ 9.1 | \$ 3.6 | \$ 229.1 | \$ 4.5 | \$ 651.7 |
| Net loss | - | - | - | (17.0) | (0.7) | (17.7) |
| Other comprehensive income (loss): | | | | | | |
| Employee future benefits actuarial gain | - | - | - | 0.6 | - | 0.6 |
| Income tax expense on actuarial gain ^(Note 20) | - | - | - | (0.2) | - | (0.2) |
| Foreign currency translation differences for foreign operations | - | - | (0.2) | - | - | (0.2) |
| Total comprehensive loss | - | - | (0.2) | (16.6) | (0.7) | (17.5) |
| Stock options recognized in equity ^{(Note 16(a))} | - | 0.1 | - | - | - | 0.1 |
| Exercise of stock options ^{(Notes 14, 16(a))} | - | (0.4) | - | 0.4 | - | - |
| Dividends | - | - | - | (4.0) | - | (4.0) |
| Total transactions with owners, recorded directly in equity | - | (0.3) | - | (3.6) | - | (3.9) |
| Balance at March 31, 2023 | 405.4 | 8.8 | 3.4 | 208.9 | 3.8 | 630.3 |
| Balance at December 31, 2023 | 405.4 | 8.8 | 1.9 | 148.9 | 2.9 | 567.9 |
| Net loss | - | - | - | (7.7) | (0.3) | (8.0) |
| Other comprehensive income (loss): | | | | | | |
| Employee future benefits actuarial loss | - | - | - | (0.2) | - | (0.2) |
| Income tax recovery on actuarial loss ^(Note 20) | - | - | - | 0.1 | - | 0.1 |
| Foreign currency translation differences for foreign operations | - | - | 1.6 | - | - | 1.6 |
| Total comprehensive income (loss) | - | - | 1.6 | (7.8) | (0.3) | (6.5) |
| Non-controlling interest ^(Note 15) | - | - | - | 19.5 | 9.5 | 29.0 |
| Total transactions with owners, recorded directly in equity | - | - | - | 19.5 | 9.5 | 29.0 |
| Balance at March 31, 2024 | \$ 405.4 | \$ 8.8 | \$ 3.5 | \$ 160.6 | \$ 12.1 | \$ 590.4 |

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 March 31, | |
|--|---------------------------------|---------------|
| | 2024 | 2023 |
| Cash provided by (used in): | | |
| Operating activities: | | |
| Net loss | \$ (8.0) | \$ (17.7) |
| Items not involving cash: | | |
| Amortization of property, plant and equipment ^(Note 7) | 12.2 | 12.1 |
| Amortization of timber licenses | 1.0 | 1.0 |
| Loss (gain) on disposal of property, plant, and equipment ^(Note 7) | (0.2) | 0.1 |
| Amortization of deferred revenue ^(Note 17) | (0.5) | (0.5) |
| Finance costs | 2.1 | 0.2 |
| Income tax recovery ^(Note 20) | (9.4) | (5.9) |
| Change in reforestation obligation ^(Note 11) | 0.7 | 0.4 |
| Share-based compensation, including mark-to-market adjustment ^(Note 16) | 0.3 | 0.6 |
| Change in employee future benefits obligation ^(Note 12) | (0.2) | (0.3) |
| Foreign exchange and other | (1.9) | 0.3 |
| Income taxes paid | (0.1) | (0.1) |
| | <u>(4.0)</u> | <u>(9.8)</u> |
| Changes in non-cash working capital items: | | |
| Trade and other receivables | (12.6) | (1.3) |
| Inventory | 3.0 | (3.3) |
| Prepaid expenses and other assets | (3.1) | (3.3) |
| Accounts payable and accrued liabilities | (11.3) | (8.1) |
| | <u>(24.0)</u> | <u>(16.0)</u> |
| | <u>(28.0)</u> | <u>(25.8)</u> |
| Investing activities: | | |
| Additions to property, plant and equipment ^(Note 7) | (4.8) | (7.5) |
| Proceeds of property, equipment and other disposals | 0.8 | 0.2 |
| Advances and loans receipts (issued) | 0.1 | (1.1) |
| Proceeds on disposition of minority interest in subsidiary ^(Note 15) | 35.9 | - |
| | <u>32.0</u> | <u>(8.4)</u> |
| Financing activities: | | |
| Net drawings on credit facility ^(Note 10) | 1.7 | 25.9 |
| Bank indebtedness (repayments) | (0.4) | 1.0 |
| Interest payments | (2.7) | (0.3) |
| Lease payments | (2.4) | (1.9) |
| Dividends | - | (4.0) |
| | <u>(3.8)</u> | <u>20.7</u> |
| Increase (decrease) in cash and cash equivalents | 0.2 | (13.5) |
| Cash and cash equivalents, beginning of period | 2.3 | 15.8 |
| Cash and cash equivalents, March 31 | <u>\$ 2.5</u> | <u>\$ 2.3</u> |

Western Forest Products Inc.

Notes to the Unaudited Condensed Consolidated Interim Financial Statements

Three months ended March 31, 2024 and 2023

(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, United States (“US”). 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 (“interim financial statements”) as at and for the three months ended March 31, 2024 and 2023 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 interim financial statements of the Company have been prepared in accordance with IAS 34, *Interim Financial Reporting*. These interim financial statements do not include all of the disclosures required by 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, 2023, available at www.westernforest.com or www.sedarplus.ca. References to the three months ended March 31 may be referred to as Q1. Certain comparative prior year figures have been reclassified to conform to the current year’s presentation.

The interim financial statements were authorized for issue by the Board of Directors on May 7, 2024.

(b) Basis of measurement

The interim financial statements have been prepared on the historical cost basis except for the following material items in the interim 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 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. Change in accounting policy

Except as described below, 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, 2023.

The Company has adopted *Classification of Liabilities as Current or Non-current and Non-current Liabilities with Covenants – Amendments to IAS 1*, as issued in 2020 and 2022. The amendments apply retrospectively for annual reporting periods beginning on or after January 1, 2024. They clarify certain requirements for determining whether a liability should be classified as current or non-current and require new disclosures for non-current liabilities that are subject to covenants within twelve months after the reporting period. Adoption of these changes in accounting policy and amendments had no impact on the Company’s interim financial statements.

Western Forest Products Inc.

Notes to the Unaudited Condensed Consolidated Interim Financial Statements

Three months ended March 31, 2024 and 2023

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

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.

5. Inventory

| | March 31, 2024 | | | December 31, 2023 | | |
|--------------------|----------------------|------------------|--|----------------------|------------------|--|
| | Gross carrying value | Provisions | Lower of cost and net realizable value | Gross carrying value | Provisions | Lower of cost and net realizable value |
| Logs | \$ 118.4 | \$ (19.3) | \$ 99.1 | \$ 146.6 | \$ (20.8) | \$ 125.8 |
| Lumber | 111.7 | (20.8) | 90.9 | 86.1 | (18.5) | 67.6 |
| Supplies and other | 20.6 | - | 20.6 | 20.1 | - | 20.1 |
| | <u>\$ 250.7</u> | <u>\$ (40.1)</u> | <u>\$ 210.6</u> | <u>\$ 252.8</u> | <u>\$ (39.3)</u> | <u>\$ 213.5</u> |

The carrying amount of inventory recorded at net realizable value was \$79.9 million at March 31, 2024 (December 31, 2023: \$89.3 million), with the remaining inventory recorded at cost.

For the three months ended March 31, 2024, \$225.4 million (Q1 2023: \$242.6 million) of inventory was charged to cost of goods sold. This includes an increase in the provision for write-down to net realizable value of \$0.8 million for the three months ended March 31, 2024 (Q1 2023: decrease of \$10.0 million).

6. Assets held for sale

Management intends to sell certain manufacturing assets at its Alberni Pacific Division ("APD"). Accordingly, these assets are presented as assets held for sale. 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.

During the three months ended March 31, 2024, the Company sold a parcel of land previously classified as held for sale and recognized a gain of \$0.4 million recorded in Other income (loss).

As at March 31, 2024, the assets held for sale comprised the following assets and liabilities:

| | March 31, 2023 | December 31, 2023 |
|---|----------------|-------------------|
| Supplies and other | \$ 2.5 | \$ 2.5 |
| Property, plant and equipment | 8.0 | 8.3 |
| Assets held for sale | <u>\$ 10.5</u> | <u>\$ 10.8</u> |
| Lease and other liabilities directly associated with assets held for sale | <u>\$ 0.4</u> | <u>\$ 0.3</u> |

On April 16, 2024, the Company announced the indefinite curtailment of its APD site and its intent to offer voluntary severance to the remaining sixty employees, which is estimated to total \$2.8 million.

Western Forest Products Inc.

Notes to the Unaudited Condensed Consolidated Interim Financial Statements

Three months ended March 31, 2024 and 2023

(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, 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 at December 31, 2023 | 57.0 | 485.5 | 24.6 | 255.3 | 822.4 | 45.9 | 868.3 |
| Additions | - | - | 3.8 | 1.0 | 4.8 | 1.8 | 6.6 |
| Disposals | - | (0.5) | - | (0.1) | (0.6) | (2.1) | (2.7) |
| Transfers | - | 15.7 | (17.3) | 1.6 | - | - | - |
| Effect of movements in exchange rates | 0.3 | 1.3 | - | - | 1.6 | 0.2 | 1.8 |
| Balance at March 31, 2024 | \$ 57.3 | \$ 502.0 | \$ 11.1 | \$ 257.8 | \$ 828.2 | \$ 45.8 | \$ 874.0 |
| Accumulated amortization | | | | | | | |
| Balance 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 at December 31, 2023 | | 265.2 | | 222.3 | 487.5 | 26.4 | 513.9 |
| Amortization | | 7.9 | | 2.2 | 10.1 | 2.1 | 12.2 |
| Disposals | | (0.3) | | - | (0.3) | (2.1) | (2.4) |
| Effect of movements in exchange rates | | 0.3 | | - | 0.3 | 0.1 | 0.4 |
| Balance at March 31, 2024 | | \$ 273.1 | | \$ 224.5 | \$ 497.6 | \$ 26.5 | \$ 524.1 |
| Carrying amounts | | | | | | | |
| At December 31, 2023 | \$ 57.0 | \$ 220.3 | \$ 24.6 | \$ 33.0 | \$ 334.9 | \$ 19.5 | \$ 354.4 |
| At March 31, 2024 | \$ 57.3 | \$ 228.9 | \$ 11.1 | \$ 33.3 | \$ 330.6 | \$ 19.3 | \$ 349.9 |

The Company did not utilize cash deposits during the three months ended March 31, 2024 (Q1 2023: utilized \$0.2 million) as equipment was delivered.

Western Forest Products Inc.

Notes to the Unaudited Condensed Consolidated Interim Financial Statements

Three months ended March 31, 2024 and 2023

(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 Mar. 31, | |
|--|-----------------------------|---------|
| | 2024 | 2023 |
| Carrying value, beginning | \$ 49.3 | \$ 49.1 |
| Change in fair value due to growth and pricing | 0.1 | 0.1 |
| Harvested timber transferred to inventory | (0.1) | (0.1) |
| Carrying value, March 31 | \$ 49.3 | \$ 49.1 |

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 March 31, 2024, private timberlands comprised an area of approximately 22,693 hectares (December 31, 2023: 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 months ended March 31, 2024, the Company harvested and scaled 7,730 cubic meters ("m³") of logs (Q1 2023: 27,887 m³), from its private timberlands, which had a fair value less costs to sell of \$121 per m³ at the date of harvest (Q1 2023: \$107 per m³).

9. Other assets

| | Mar. 31, 2024 | Dec. 31, 2023 |
|--|------------------|------------------|
| Export tax receivable and related interest ^{(Note 22(a))} | \$ 73.3 | \$ 70.8 |
| Investments, long-term loans and advances | 4.1 | 3.9 |
| Note receivable | 2.6 | 2.6 |
| Other | 0.4 | 0.4 |
| | 80.4 | 77.7 |
| Current portion | 0.3 | 0.3 |
| | \$ 80.1 | \$ 77.4 |

10. Long-term debt

| | Mar. 31, 2024 | Dec. 31, 2023 |
|--|------------------|------------------|
| Credit facility drawings | \$ 85.7 | \$ 84.0 |
| Equipment loan | 0.1 | 0.1 |
| | 85.8 | 84.1 |
| Less transaction costs | (0.2) | (0.3) |
| Long-term debt | \$ 85.6 | \$ 83.8 |
| Available Credit Facility | \$ 250.0 | \$ 250.0 |
| Credit Facility drawings | (85.7) | (84.0) |
| Outstanding letters of credit included in line utilization | (24.2) | (19.6) |
| Unused portion of Credit Facility | \$ 140.1 | \$ 146.4 |

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.

Western Forest Products Inc.

Notes to the Unaudited Condensed Consolidated Interim Financial Statements

Three months ended March 31, 2024 and 2023

(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 was in compliance with its financial covenants as at March 31, 2024 and expects to comply for at least twelve months thereafter. Accordingly, the loan is classified as non-current at March 31, 2024.

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 Mar. 31, | |
|--|-----------------------------|----------------|
| | 2024 | 2023 |
| Reforestation obligation, beginning | \$ 22.1 | \$ 22.1 |
| Provision charged | 1.5 | 1.3 |
| Expenditures | (0.8) | (0.9) |
| Unwind of discount | 0.2 | 0.1 |
| | <u>23.0</u> | <u>22.6</u> |
| Less current portion | 8.8 | 8.6 |
| Long-term reforestation obligation, March 31 | <u>\$ 14.2</u> | <u>\$ 14.0</u> |

The reforestation expenditures are expected to occur over the next one to ten years and have been discounted at risk-free rates of 3.45% to 4.77% (Q1 2023: 2.86% to 4.41%). The total undiscounted amount of the estimated future expenditures required to settle the reforestation obligation at March 31, 2024 is \$25.5 million (December 31, 2023: \$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 statements 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:

| | Mar. 31, 2024 | Dec. 31, 2023 |
|---|------------------|------------------|
| Present value of obligations | \$ 90.2 | \$ 92.9 |
| Fair value of plan assets | (85.5) | (88.2) |
| Liability recognized in the statements of financial position ^(Note 13) | <u>\$ 4.7</u> | <u>\$ 4.7</u> |

The change in the liability recognized in the statements of financial position at March 31, 2024 resulted primarily from an increase in the discount rate used to value the defined benefit obligations, offset by lower returns on plan assets. The discount rate used as at March 31, 2024 was 4.90% per annum (December 31, 2023: 4.65% per annum). The Company expects to make funding contributions to its defined benefit plans of \$1.2 million in 2024.

Western Forest Products Inc.

Notes to the Unaudited Condensed Consolidated Interim Financial Statements

Three months ended March 31, 2024 and 2023

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

13. Other liabilities

| | Current | Non-current | Total |
|--|---------------|----------------|----------------|
| As at March 31, 2024 | | | |
| Defined benefit employee future benefits obligation ^(Note 12) | \$ - | \$ 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 16(b))} | 1.3 | - | 1.3 |
| Performance share unit plan liabilities ^{(Note 16(c))} | - | 0.1 | 0.1 |
| Restricted share unit plan liabilities ^{(Note 16(d))} | 0.5 | 1.1 | 1.6 |
| Other | - | 0.6 | 0.6 |
| | <u>\$ 1.9</u> | <u>\$ 11.3</u> | <u>\$ 13.2</u> |
| As at December 31, 2023 | | | |
| Defined benefit employee future benefits obligation ^(Note 12) | \$ - | \$ 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 16(b))} | 1.8 | - | 1.8 |
| Performance share unit plan liabilities ^{(Note 16(c))} | 1.4 | - | 1.4 |
| Restricted share unit plan liabilities ^{(Note 16(d))} | 0.8 | 1.2 | 2.0 |
| Other | - | 0.7 | 0.7 |
| | <u>\$ 4.1</u> | <u>\$ 11.4</u> | <u>\$ 15.5</u> |

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

14. Share capital

| | Number of common shares | Amount |
|---|-------------------------|-----------------|
| Balance at December 31, 2022 | 316,742,746 | \$ 405.4 |
| Exercise of stock options | 2,811 | - |
| Balance at December 31, 2023 and March 31, 2024 | <u>316,745,557</u> | <u>\$ 405.4</u> |

On August 3, 2023, 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 in 2023 or during the first three months ended March 31, 2024.

No stock options were exercised in the first three months ended March 31, 2024, with no common shares issued. (Q1 2023: 400,000 stock options exercised with 2,811 common shares issued on a cashless basis resulting in a \$0.4 million credit to retained earnings).

15. Non-controlling interest

On March 27, 2024, the Company completed the sale of a 34% ownership interest in its newly formed La-kwa sa muqw Forestry Limited Partnership ("LFLP") to four Vancouver Island First Nations: K'ómoks First Nation, Tlowitsis First Nation, We Wai Kai First Nation, and Wei Wai Kum First Nation, collectively referred to as the Nations, for gross proceeds of \$35.9 million. The LFLP is comprised of certain assets and liabilities of the Company's former Mid-Island Forest Operation, including TFL 64, which was created through the subdivision of Block 2 of TFL 39. This is considered a transaction with owners in their capacity as owners, and because it did not result in a loss of control, the gain on disposal of \$26.3 million and related deferred tax expense of \$6.8 million was recognized directly to retained earnings.

Western Forest Products Inc.

Notes to the Unaudited Condensed Consolidated Interim Financial Statements

Three months ended March 31, 2024 and 2023

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

16. 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 9,265,475 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:

| | Three months ended Mar. 31, 2024 | | Three months ended Mar. 31, 2023 | |
|----------------------------|----------------------------------|---------------------------------|----------------------------------|---------------------------------|
| | Number of options | Weighted average exercise price | Number of options | Weighted average exercise price |
| Outstanding at December 31 | 11,486,679 | \$ 1.79 | 15,133,457 | \$ 1.72 |
| Exercised | - | - | (400,000) | 1.27 |
| Expired | (948,000) | 2.60 | (1,000,000) | 1.27 |
| Forfeited | - | - | (2,246,778) | 1.64 |
| Outstanding at March 31 | 10,538,679 | \$ 1.72 | 11,486,679 | \$ 1.79 |

For the three months ended March 31, 2024, the Company recorded a negligible compensation expense for stock options (Q1 2023: \$0.1 million expense), with a corresponding change to contributed surplus.

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

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

| | Three months ended Mar. 31, 2024 | | Three months ended Mar. 31, 2023 | |
|----------------------------|----------------------------------|--|----------------------------------|--|
| | Number of DSUs | Weighted average unit value ¹ | Number of DSUs | Weighted average unit value ¹ |
| Outstanding at December 31 | 2,567,991 | \$ 1.21 | 2,067,371 | \$ 1.45 |
| Granted ¹ | 343,750 | 0.60 | 194,109 | 1.06 |
| Redeemed | (919,453) | 1.50 | - | - |
| Outstanding at March 31 | 1,992,288 | \$ 0.97 | 2,261,480 | \$ 1.42 |

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

For the three months ended March 31, 2024, the Company recorded a compensation recovery for DSUs of \$0.2 million (Q1 2023: \$0.1 million), 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.

| | Three months ended Mar. 31, 2024 | | Three months ended Mar. 31, 2023 | |
|----------------------------|----------------------------------|--|----------------------------------|--|
| | Number of PSUs | Weighted average unit value ¹ | Number of PSUs | Weighted average unit value ¹ |
| Outstanding at December 31 | 3,574,946 | \$ 1.55 | 3,591,951 | \$ 1.46 |
| Granted ¹ | 3,423,691 | 0.65 | 1,549,768 | 1.31 |
| Redeemed | (1,130,621) | 1.54 | (1,655,262) | 1.08 |
| Outstanding at March 31 | 5,868,016 | \$ 1.03 | 3,486,457 | \$ 1.57 |

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

For the three months ended March 31, 2024, the Company recorded a compensation expense for PSUs of \$0.1 million (Q1 2023: \$0.2 million), with corresponding changes to accounts payable and accrued liabilities and other liabilities.

Western Forest Products Inc.

Notes to the Unaudited Condensed Consolidated Interim Financial Statements

Three months ended March 31, 2024 and 2023

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

16. Share-based compensation plans (continued)

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

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

| | Three months ended Mar. 31, 2024 | | Three months ended Mar. 31, 2023 | |
|----------------------------|----------------------------------|--|----------------------------------|--|
| | Number of RSUs | Weighted average unit value ¹ | Number of RSUs | Weighted average unit value ¹ |
| Outstanding at December 31 | 4,665,771 | \$ 1.54 | 3,438,775 | \$ 1.61 |
| Granted ¹ | 8,332,914 | 0.65 | 1,452,759 | 1.31 |
| Redeemed | (1,179,006) | 1.54 | (341,235) | 1.08 |
| Outstanding at March 31 | 11,819,679 | \$ 0.91 | 4,550,299 | \$ 1.55 |

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

For the three months ended March 31, 2024, the Company recorded compensation expense of \$0.4 million for RSUs (Q1 2023: \$0.4 million expense) with corresponding changes in accounts payable and accrued liabilities and to other liabilities.

17. 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 Mar. 31, | |
|-----------------------------|-----------------------------|-----------------|
| | 2024 | 2023 |
| Primary geographic markets | | |
| Canada | \$ 91.1 | \$ 104.1 |
| United States | 68.8 | 88.6 |
| Japan | 39.2 | 26.0 |
| China | 19.5 | 25.7 |
| Other | 18.0 | 17.1 |
| Europe | 2.9 | 2.3 |
| | <u>\$ 239.5</u> | <u>\$ 263.8</u> |
| Major products and services | | |
| Lumber | \$ 177.6 | \$ 211.0 |
| Logs | 45.1 | 38.6 |
| By-products | 10.5 | 13.3 |
| Forestry services and other | 6.3 | 0.9 |
| | <u>\$ 239.5</u> | <u>\$ 263.8</u> |

Contract balances

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

| | Mar. 31, 2024 | Dec. 31, 2023 |
|--------------------------------|------------------|------------------|
| Trade and other receivables | \$ 63.5 | \$ 50.9 |
| Other investments and advances | 1.1 | 1.2 |
| Contract liabilities | 44.0 | 44.5 |

Contract liabilities relate to the consideration received from a customer for a long-term fibre supply contract and are recognized as deferred revenue, for which revenue is recognized straight-line over the term of the contract (see Note 22(c)). The Company recognized related revenue of \$0.5 million for the three months ended March 31, 2024 (Q1 2023: \$0.5 million).

Western Forest Products Inc.

Notes to the Unaudited Condensed Consolidated Interim Financial Statements

Three months ended March 31, 2024 and 2023

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

18. Operating restructuring items

| | Three months ended Mar. 31, | |
|--|-----------------------------|---------------|
| | 2024 | 2023 |
| Retirement and other benefits (recovery) | \$ (0.2) | \$ 5.1 |
| Other expense | - | 0.1 |
| | <u>\$ (0.2)</u> | <u>\$ 5.2</u> |

19. Other income (loss)

| | Three months ended Mar. 31, | |
|---|-----------------------------|-----------------|
| | 2024 | 2023 |
| Gain (loss) on disposal of property, plant, and equipment ^(Note 7) | \$ 0.2 | \$ (0.1) |
| Foreign exchange gains (losses) | 1.7 | (0.1) |
| Other income (expense) | (0.1) | 0.1 |
| | <u>\$ 1.8</u> | <u>\$ (0.1)</u> |

20. 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 Mar. 31, | |
|---|-----------------------------|-----------------|
| | 2024 | 2023 |
| Loss before income taxes | \$ (17.4) | \$ (23.6) |
| Income tax recovery at statutory rate of 27% | \$ (4.7) | \$ (6.4) |
| Difference in tax rates | (0.1) | 0.2 |
| Other permanent differences | (1.2) | 0.3 |
| Change in unrecognized deductible temporary differences | (3.4) | - |
| | <u>\$ (9.4)</u> | <u>\$ (5.9)</u> |
| Recognized in Other comprehensive income (loss) | | |
| Deferred tax expense (recovery) | \$ (0.1) | \$ 0.2 |
| Recognized in Retained earnings | | |
| Deferred tax expense | \$ 6.8 | \$ - |

21. Loss per share

Net 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 Mar. 31, 2024 | | | Three months ended Mar. 31, 2023 | | |
|------------------------------------|--|-----------------------------------|------------------|--|-----------------------------------|------------------|
| | Net loss attributable to equity shareholders | Weighted average number of shares | Per share | Net loss attributable to equity shareholders | Weighted average number of shares | Per share |
| Issued shares, beginning of period | | 316,745,557 | | | 316,742,746 | |
| Effect of shares: | | | | | | |
| Issued in the quarter | | - | | | 1,312 | |
| Basic loss per share | \$ (7.7) | 316,745,557 | \$ (0.02) | \$ (17.0) | 316,744,058 | \$ (0.05) |
| Effective of dilutive securities: | | | | | | |
| Stock options ¹ | | - | | | 724,257 | |
| Diluted loss per share | <u>\$ (7.7)</u> | <u>316,745,557</u> | <u>\$ (0.02)</u> | <u>\$ (17.0)</u> | <u>316,744,058</u> | <u>\$ (0.05)</u> |

¹ Where the addition of stock options to the total shares outstanding has an anti-dilutive impact on the diluted loss per share calculation, those stock options have not been included in the total shares outstanding for purposes of the calculation of diluted loss per share.

Western Forest Products Inc.

Notes to the Unaudited Condensed Consolidated Interim Financial Statements

Three months ended March 31, 2024 and 2023

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

22. 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 2021, the Company recognized a long-term interest-bearing duty receivable totalling USD\$54.1 million (CAD\$73.3 million) in its statements of financial position. During the three months ended March 31, 2024, export tax expense of \$4.0 million (Q1 2023: \$4.7 million) was recorded in the statements of comprehensive loss.

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.

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 November 30, 2023, the USITC issued its final determination under the sunset review, concurring with the DoC conclusion.

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.

On March 5, 2024, the DoC initiated its sixth AR of CV and AD for shipments in 2023, with a completion deadline of January 25, 2025.

Western Forest Products Inc.

Notes to the Unaudited Condensed Consolidated Interim Financial Statements

Three months ended March 31, 2024 and 2023

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

22. 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 | 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 | | |
|----------------------|--------------|------------------------------------|------------------------------------|-----------------------------------|------------------------------------|------------------------------------|----------------------|----------------------|----------------------|
| | onward | 2023 | 2022 | 2022 | 2021 | 2020 | 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 | 6.26% | 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 | | | | 6.71% | 1.79% | 3.83% | 6.32% | 7.42% | 7.26% |
| CV | | | | 7.15% | 6.26% | 4.76% | 11.59% | 1.57% | 1.57% |
| AD | | | | 13.86% | 8.05% | 8.59% | 17.91% | 8.99% | 8.83% |

As at March 31, 2024, including interest of USD\$7.6 million (December 31, 2023: USD\$6.8 million), the duty receivable of USD\$54.1 million (December 31, 2023: USD\$53.4 million) was revalued at the year-end exchange rate to CAD\$73.3 million (December 31, 2023: CAD\$70.8 million).

Interest revenue of \$1.0 million was recorded in finance costs during the three months ended March 31, 2024 (Q1 2023: \$0.8 million). A foreign exchange gain of \$1.5 million was recorded in other income (loss) during the three months ended March 31, 2024 (Q1 2023: foreign exchange loss of \$0.1 million).

As at March 31, 2024, the Company had paid \$228.5 million of duties, all of which remain held in trust by US Department of Treasury (December 31, 2023: \$219.3 million). With the exception of USD\$46.6 million (CAD\$63.1 million) of duty deposits recognized as a receivable, all duty deposits have been expensed at the cash deposit rates in effect at the date of payment.

(b) Litigation and claims

In the normal course of business, the Company may be subject to claims and legal actions that may be made by customers, unions, suppliers and others in respect of which either provision has been made or for which no material liability is expected. Where the Company is unable to determine the outcome of these disputes no amounts have been accrued in these 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, the Company believes it has satisfied fibre commitments as at March 31, 2024. The Company anticipates satisfying annual fibre commitments for the year ending December 31, 2024.

23. 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.

Western Forest Products Inc.

Notes to the Unaudited Condensed Consolidated Interim Financial Statements

Three months ended March 31, 2024 and 2023

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

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

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.

| | March 31, 2024 | | | December 31, 2023 | | | |
|--|----------------|--------------------|-----------------------------|-------------------|--------------------|-----------------------------|-----------------|
| | Level | Mandatory at FVTPL | Amortized cost | Total | Mandatory at FVTPL | Amortized cost | Total |
| Financial assets | | | | | | | |
| Cash and cash equivalents | 2 | \$ - | \$ 2.5 | \$ 2.5 | \$ - | \$ 2.3 | \$ 2.3 |
| Trade and other receivables | 3 | - | 63.5 | 63.5 | - | 50.9 | 50.9 |
| Other investments and advances | 3 | - | 3.7 | 3.7 | - | 3.8 | 3.8 |
| Export tax and related interest receivable (Note 22(a)) | 3 | 73.3 | - | 73.3 | 70.8 | - | 70.8 |
| Total financial assets | | \$ 73.3 | \$ 69.7 | \$ 143.0 | \$ 70.8 | \$ 57.0 | \$ 127.8 |
| | Level | Mandatory at FVTPL | Other financial liabilities | Total | Mandatory at FVTPL | Other financial liabilities | Total |
| Financial liabilities | | | | | | | |
| Bank indebtedness (Note 10) | 2 | \$ - | \$ 0.5 | \$ 0.5 | \$ - | \$ 0.9 | \$ 0.9 |
| Accounts payable and accrued liabilities | 2 | - | 92.0 | 92.0 | - | 102.8 | 102.8 |
| Liabilities directly associated with assets held for sale (Note 6) | 2 | - | 0.4 | 0.4 | - | 0.3 | 0.3 |
| Long-term debt (Note 10) | 2 | - | 85.8 | 85.8 | - | 84.1 | 84.1 |
| Lease liabilities | 2 | - | 19.6 | 19.6 | - | 19.9 | 19.9 |
| Total financial liabilities | | \$ - | \$ 198.3 | \$ 198.3 | \$ - | \$ 208.0 | \$ 208.0 |

The Company enters into forward contracts to sell USD and Japanese Yen (“JPY”) in order to mitigate a portion of the foreign currency risk. As at March 31, 2024, the Company had outstanding obligations to sell an aggregate USD\$22.0 million at an average exchange rate of CAD\$1.3561 per USD with maturities through April 18, 2024 (December 31, 2023: USD\$13.0 million at an average exchange rate of CAD\$1.3279 per USD).

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 Mar. 31, | |
|---|-----------------------------|---------------|
| | 2024 | 2023 |
| Fair value of asset, beginning of period | \$ - | \$ (0.1) |
| Fair value of asset at March 31 | - | 0.2 |
| Change in unrealized foreign currency gains | - | 0.1 |
| Realized foreign currency gains (losses) on settled contracts | (0.3) | 0.3 |
| Foreign currency gains (losses) recognized in revenue | \$ (0.3) | \$ 0.4 |

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



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