



Western Forest Products Inc.  
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**Western Forest Products Inc.**

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Management's Discussion and Analysis  
of Financial Conditions and Results of Operations

Three and nine months ended September 30, 2022

## Management's Discussion & Analysis

The following Management's Discussion and Analysis ("MD&A") reports and comments on the financial condition and results of operations of Western Forest Products Inc. (the "Company", "Western", "us", "we", or "our"), on a consolidated basis, for the three and nine months ended September 30, 2022, to help security holders and other readers understand our Company and the key factors underlying our financial results. This discussion and analysis should be read in conjunction with our unaudited condensed consolidated interim financial statements and the notes thereto for the three and nine months ended September 30, 2022, and our audited annual consolidated financial statements and the notes thereto and Management's Discussion and Analysis for the year ended December 31, 2021 (the "2021 Annual Report"), which can be found on SEDAR at [www.sedar.com](http://www.sedar.com).

The Company has prepared the consolidated financial statements for the three and nine months ended September 30, 2022, in accordance with International Financial Reporting Standards ("IFRS"), as issued by the International Accounting Standards Board. Amounts discussed herein are based on our unaudited condensed consolidated interim financial statements and are presented in millions of Canadian dollars unless otherwise noted. Certain 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 expense and other income (expense), plus amortization of plant, equipment and intangible assets, impairment adjustments, and changes in fair value of biological assets. Adjusted EBITDA margin is adjusted EBITDA as a proportion of revenue. Western uses adjusted EBITDA and adjusted EBITDA margin as benchmark measurements of our own operating results and as benchmarks relative to our competitors. We consider adjusted EBITDA to be a meaningful supplement to operating income as a performance measure primarily because amortization expense, impairment adjustments and changes in the fair value of biological assets are non-cash costs, and vary widely from company to company in a manner that we consider largely independent of the underlying cost efficiency of their operating facilities. Further, the inclusion of operating restructuring expense 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", "forecast", "intend", "believe", "seek", "could", "should", "may", "likely", "continue", "pursue" and similar references to future periods. Forward-looking statements in this MD&A include, but are not limited to, statements relating to our current intent, belief or expectations with respect to: domestic and international market conditions, demands and growth; economic conditions; our growth, marketing, production, wholesale, operational and capital allocation plans, investments and strategies, including but not limited to payment of a dividend or repurchase of shares; fibre availability and regulatory developments; changes to stumpage rates and the expected timing thereof; the pending determination by BC's Chief Forester on the AAC in TFL 19; the impact of COVID-19; the combined annual glulam capacity of the Calvert Company, Inc. manufacturing facilities; and the selling of additional incremental ownership interests in Tsawak-qin Forestry Limited Partnership and in other potential business structures in the future. Although such statements reflect management's current reasonable beliefs, expectations and assumptions as to, amongst other things, the future supply and demand of forest products, global and regional economic activity and the consistency of the regulatory framework within which the Company currently operates, there can be no assurance that forward-looking statements are accurate, and actual results and performance may materially vary. Many factors could cause our actual results or performance to be materially different, including: economic and financial conditions including inflation, international demand for forest products, the Company's ability to export its products, cost and availability of shipping carrier capacity, competition and selling prices, international trade disputes and sanctions, changes in foreign currency exchange rates, labour disputes and disruptions, ability to recruit workers, natural disasters, the impact of climate change, relations with First Nations groups, First Nations' claims and settlements, the availability of fibre and allowable annual cut, the ability to obtain operational permits, development and changes in laws and regulations affecting the forest industry including as related to old growth timber management and the Manufactured Forest Products Regulation, changes in the price of key materials for our products, changes in opportunities, information systems security, future developments in COVID-19 and other factors referenced under the "Risks and Uncertainties" section herein. The foregoing list is not exhaustive, as other factors could adversely affect our actual results and performance. Forward-looking statements are based only on information currently available to us and refer only as of the date hereof. Except as required by law, we undertake no obligation to update forward-looking statements. Unless otherwise noted, the information in this discussion and analysis is updated to November 3, 2022.

## Summary of Selected Quarterly Results <sup>(1)</sup>

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

| Summary Information   | Q3<br>2022         | Q3<br>2021 | Q2<br>2022 | YTD<br>2022 | YTD<br>2021 |          |
|---|--------------------|------------|------------|-------------|-------------|----------|
| Revenue   |                    |            |            |             |             |          |
| Lumber  | \$ 267.1           | \$ 299.8   | \$ 351.8   | \$ 932.8    | \$ 929.5    |          |
| Logs  | 72.5               | 41.0       | 70.8       | 176.0       | 120.4       |          |
| By-products and other   | 16.4               | 12.1       | 14.8       | 44.2        | 39.9        |          |
| Total revenue   | 356.0              | 352.9      | 437.4      | 1,153.0     | 1,089.8     |          |
| Freight   | 25.6               | 22.6       | 31.1       | 82.7        | 72.2        |          |
| Export tax expense  | 8.0                | 6.2        | 14.7       | 34.2        | 25.2        |          |
| Export tax recovery   | (18.0)             | -          | -          | (18.0)      | -           |          |
| Stumpage  | 36.4               | 13.9       | 34.9       | 90.1        | 38.1        |          |
| Adjusted EBITDA <sup>(2)</sup>                                | 17.3               | 66.3       | 66.2       | 148.9       | 249.7       |          |
| Adjusted EBITDA margin <sup>(2)</sup>                         | 5%                 | 19%        | 15%        | 13%         | 23%         |          |
| Operating income prior to restructuring and other items       | \$ 4.7             | \$ 53.5    | \$ 53.4    | \$ 110.3    | \$ 208.0    |          |
| Net income  | 6.6                | 42.2       | 38.6       | 83.2        | 174.3       |          |
| Earnings per share  |                    |            |            |             |             |          |
| Basic and diluted   | \$ per share       | 0.02       | 0.12       | 0.12        | 0.25        | 0.47     |
| <b>Operating Information <sup>(3)</sup></b>                   |                    |            |            |             |             |          |
| Lumber shipments <sup>(4), (5)</sup>                          | mmfbm              | 179        | 194        | 197         | 562         | 618      |
| Cedar <sup>(6)</sup>  | mmfbm              | 28         | 46         | 42          | 116         | 149      |
| Japan Specialty   | mmfbm              | 23         | 28         | 28          | 83          | 69       |
| Industrial <sup>(7)</sup>                                     | mmfbm              | 19         | 21         | 18          | 54          | 67       |
| Commodity   | mmfbm              | 109        | 99         | 110         | 309         | 333      |
| Lumber production   | mmfbm              | 169        | 175        | 173         | 517         | 581      |
| Lumber price, average   | \$/mfbm            | \$ 1,495   | \$ 1,553   | \$ 1,786    | \$ 1,661    | \$ 1,504 |
| Wholesale lumber shipments                                    | mmfbm              | 7          | 9          | 12          | 34          | 30       |
| Log shipments   | 000 m <sup>3</sup> | 404        | 325        | 391         | 962         | 961      |
| Export  | 000 m <sup>3</sup> | -          | -          | -           | -           | 76       |
| Domestic  | 000 m <sup>3</sup> | 272        | 209        | 312         | 715         | 573      |
| Pulp  | 000 m <sup>3</sup> | 132        | 116        | 80          | 247         | 312      |
| Log price, average <sup>(8)</sup>                             | \$/m <sup>3</sup>  | \$ 172     | \$ 120     | \$ 166      | \$ 168      | \$ 119   |
| Net log production <sup>(9)</sup>                             | 000 m <sup>3</sup> | 800        | 690        | 904         | 2,451       | 2,390    |
| Saw log purchases   | 000 m <sup>3</sup> | 302        | 227        | 328         | 920         | 649      |
| <b>Illustrative Lumber Average Price Data <sup>(10)</sup></b> | <b>Price Basis</b> |            |            |             |             |          |
| Grn WRC #2 Clear & Btr 4x6W RL (\$C)                          | cif dest N Euro    | \$10,300   | \$ 6,863   | \$10,183    | \$ 9,878    | \$ 5,896 |
| Grn WRC Deck Knotty 2x6 RL S4S                                | Net fob Mill       | \$ 1,720   | \$ 2,237   | \$ 2,170    | \$ 2,033    | \$ 2,409 |
| Grn WRC #2 & Btr AG 6x6 RL                                    | Net fob Mill       | \$ 3,315   | \$ 3,035   | \$ 3,315    | \$ 3,280    | \$ 2,760 |
| Coast Gm WRC Std&Btr NH 3/4x4 RL S1S2E                        | Net fob Mill       | \$ 2,189   | \$ 2,263   | \$ 2,432    | \$ 2,334    | \$ 1,786 |
| Grn Hem Baby Squares Merch 4-1/8x4-1/8 13'                    | c&f dest Japan     | \$ 1,638   | \$ 1,900   | \$ 1,880    | \$ 1,793    | \$ 1,391 |
| Grn Dfir Baby Squares Merch 4-1/8x4-1/8 RL S4S                | c&f dest Japan     | \$ 1,746   | \$ 2,000   | \$ 1,971    | \$ 1,886    | \$ 1,561 |
| Grn Dfir (Portland) #1&Btr 100% FOHC 6x6 Rough                | Net fob Mill       | \$ 1,961   | \$ 1,778   | \$ 1,963    | \$ 1,928    | \$ 1,624 |
| Hemlock Lumber 2x4 (40x90) Metric RG Utility                  | cif dest Shanghai  | \$ 452     | \$ 566     | \$ 539      | \$ 515      | \$ 662   |
| Coast KD Hem-Fir #2 & Btr 2x4                                 | Net fob Mill       | \$ 626     | \$ 500     | \$ 937      | \$ 958      | \$ 1,222 |
| Average exchange rate – CAD to USD                            |                    | 0.766      | 0.794      | 0.783       | 0.780       | 0.799    |
| Average exchange rate – CAD to JPY                            |                    | 105.93     | 87.39      | 101.54      | 99.43       | 86.64    |

- (1) Included in Appendix A is a table of selected results from the last eight quarters. Figures in the table may not equal or sum to figures presented in the table or elsewhere due to rounding.
- (2) Adjusted EBITDA and Adjusted EBITDA margin are non-GAAP financial measures. Refer to the Non-GAAP Financial Measures section of this document for more information on each non-GAAP financial measure.
- (3) Log data reflects British Columbia business only.
- (4) "mmfbm" = millions of board feet; "mfbm" = thousands of board feet.
- (5) Includes wholesale lumber shipments.
- (6) Cedar includes Western Red Cedar, Yellow Cedar and Japanese Cedar.
- (7) Industrial was formerly described as Niche and the lumber contents of this category remain unchanged.
- (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) Net log production is sorted log production, net of residuals and waste.
- (10) Sourced from Random Lengths in USD/Mfbm, except Hemlock Lumber Metric RG Utility that is sourced from the Forest Economic Advisors LLC China Bulletin.

## Summary of Third Quarter 2022 Results

Adjusted EBITDA was \$17.3 million, as compared to \$66.3 million in the third quarter of 2021. Results in the third quarter of 2022 reflect compressed margins on lower lumber shipment volumes and \$23.1 million of inventory provisions, partly offset by an \$18 million export tax recovery. Net income in the third quarter of 2022 was \$6.6 million as compared to net income of \$42.2 million in the same period last year.

Adjusted EBITDA in the third quarter of 2022 was impacted by incremental costs including \$22.5 million in additional stumpage expenses, higher log purchase prices, and elevated operating costs. In addition, we incurred an incremental \$3.0 million in freight expense and an incremental \$1.8 million in export taxes despite lower lumber shipments. Product price declines resulted in \$23.1 million of additional inventory provisions in the third quarter of 2022, as compared to \$3.7 million recognized in the same period of 2021. Third quarter operating income prior to restructuring and other items was \$4.7 million in 2022, as compared to \$53.5 million in the same period last year.

### *Sales*

Revenue in the third quarter of 2022 was consistent with the same period last year despite weaker markets. We increased sawlog sales to match supply to our sawmill requirements, and offset lower lumber shipments.

Lumber revenue declined by 11% as compared to the third quarter of last year on reduced shipments and a lower average realized lumber price. Lumber sales volumes decreased by 8%, with weaker demand across most segments driving a 27% decline in our specialty product shipments. Among factors influencing reduced lumber demand were rising borrowing costs and inflation, high customer inventories, and the impact of the Yen devaluation on North American market lumber price competitiveness in Japan.

Our average realized lumber price was \$1,495 per thousand board feet, a decrease of 4% from the third quarter of 2021. Price realization was impacted by a reduction in the percentage of specialty shipments to 39% from 49% in the third quarter of last year, partly offset by the benefit of a weaker average Canadian to US Dollar exchange rate. The average CAD to USD exchange rate fell by 4% as compared to the same period last year.

Log revenue of \$72.5 million in the third quarter of 2022 rose by 77% from the comparative period last year. We increased sawlog shipments as compared to the same period last year, capitalizing on stronger log markets. A higher mix of domestic to pulp log sales contributed to the 43% increase in average realized log price over the same period last year. Declining lumber markets through the third quarter of 2022 resulted in significant declines in log prices at the end of the quarter.

By-products and other revenue was \$16.4 million, an increase of \$4.3 million over the same quarter last year, primarily attributable to improved by-product species mix and other revenue.

### *Operations*

Lumber production declined by 4% in the third quarter of 2022 as compared the same period last year, due to maintenance, capital upgrades and market-related curtailments at certain large-log sawmills. We reduced production to more closely match supply to demand and manage inventory levels. We completed components of the Duke Point planer upgrades and are ramping up processing at this facility in the fourth quarter of 2022.

We harvested 800,000 cubic metres of logs from our coastal operations in BC, as compared to 690,000 cubic metres in the third quarter last year, which was impacted by prolonged fire season operating curtailments. Log harvest was reduced late in the third quarter of 2022 to more closely match mill requirements.

Stumpage expense increased by \$22.5 million as compared to the same period last year. Record coastal stumpage rates as a result of record product pricing in the first half of 2022, coupled with an increase in logs harvested, drove a significant increase in stumpage expense quarter-over-quarter. Stumpage rates in the third quarter of 2022 increased 73% over the same period of 2021.

Excluding stumpage, timberlands operating costs increased over the comparative period due to higher fuel costs, incremental road building and increased heli-logging. Comparative third quarter results in 2021 include the impact of partial deferral of road building due to weather related operating curtailments.

We increased our BC coastal saw log purchases by 33% as compared to the third quarter of last year. Market log availability was constrained in the prior period due to an extended fire season.

Third quarter freight expense increased by \$3.0 million over the same period last year, despite an 8% decline in lumber shipments and the absence of log exports. Higher container rates, increased use of breakbulk container shipments and fuel increases contributed to the rise in freight expense. Freight rates declined slightly through the third quarter of 2022 as global logistics constraints and fuel surcharges eased but remain significantly above rates in the comparative period.

Adjusted EBITDA and operating income included \$8.0 million of countervailing duty (“CV”) and anti-dumping duty (“AD”) expense in the third quarter of 2022, as compared to duty expense of \$6.2 million in the same period of 2021. During the third quarter of 2022, we recognized a recovery of \$18.0 million on the finalization of duty rates for shipments made in 2020.

Excluding the export tax recovery, higher average cash deposit rates in the third quarter of 2022 as compared to the same period of 2021, and a weaker average CAD to USD exchange rate, offset the impact of reduced US-destined lumber sales volumes. Cash deposit rates in the third quarter of 2022 declined from 17.91% to 8.59% on August 4, 2022, compared to cash deposit rates of 8.99% throughout the same period of 2021.

Lumber market weakness and related declines in inventory values held at period-end led to inventory provisions of \$23.1 million in the third quarter of 2022, as compared to \$3.7 million in the same period last year.

### *Selling and Administration Expense*

Third quarter selling and administration expense was \$11.1 million in 2022 as compared to \$13.6 million in the third quarter last year, attributable to lower incentive compensation expense resulting from declines in the share price and earnings quarter-over-quarter.

### *Other Income*

Other income in the third quarter of 2022 was comparable to the same period of 2021. In the three months ended September 30, 2022, the USD to CAD exchange rate appreciated by 7% and that contributed to net \$3.9 million in foreign exchange gains, as compared to \$0.8 million of foreign exchange gains and \$3.3 million of gains on asset disposals in the same quarter last year.

### *Finance Income and Costs*

Finance income was \$0.7 million as compared to finance costs of \$0.4 million in the third quarter last year. Included in finance income was \$1.1 million in incremental interest on the export tax recovery recorded in the third quarter of 2022.

### *Income Taxes*

Western recognized current income tax recovery of \$3.4 million and deferred income tax expense of \$6.4 million in net income in the third quarter of 2022, an income tax reduction of \$11.0 million over the third quarter of 2021. Lower tax expense was the result of reduced operating income.

### *Net Income*

Net income for the third quarter of 2022 was \$6.6 million, as compared to net income of \$42.2 million for the same period last year. Weaker lumber markets, higher costs and higher inventory provisions were partially offset by the recognition of \$18.0 million in export tax recovery.

## **Summary of Year to Date 2022 Results**

Adjusted EBITDA for the first nine months of 2022 was \$148.9 million, as compared to \$249.7 million for the same period last year. Lower shipments and higher costs negatively impacted results. Net income was \$83.2 million for the first nine months of 2022, as compared to \$174.3 million for the same period last year.

Cost pressures have included an incremental \$52.0 million stumpage expense, \$10.5 million from freight rate increases, and \$9.0 million for higher export taxes. Weaker product pricing at the end of the third quarter of 2022 led to increased inventory provisions of \$32.1 million net as compared to the same period last year. By managing production to more closely match demand, and with the benefit of \$18.0 million export tax recovery, we partly mitigated the headwinds of declining market conditions and higher operating costs. Operating income prior to restructuring and other items was \$110.3 million, as compared to \$208.0 million in the same period last year.

## *Sales*

Lumber revenue was \$932.8 million in the first nine months of 2022, comparable to the same period last year. Higher prices realizations were offset by lower lumber shipments.

Our average realized lumber price was \$1,661 per thousand board feet, an increase of 10% from the comparable period of 2021 on improved speciality product price realizations in the first half of 2022. Having peaked in the first quarter of 2022, commodity lumber price steadily declined. Lumber revenue benefitted from a weaker Canadian to US Dollar year-over-year.

Log revenue was \$176.0 million in the first nine months of 2022, an increase of 46% from the same period as a result of improved sales mix. Strong first-half lumber markets and limited BC log production drove coastal log prices higher, resulting in a 41% increase in average realized BC log prices in the first nine months of 2022, over the prior year. Lumber price declines in the third quarter of 2022 drove log market weakness and price reductions late in the third quarter of 2022.

Log shipments in the first nine months of 2022 were comparable to the prior period. We continued to direct all export-grade logs to our sawmills in support of lumber production.

By-products and other revenue increased by 11% in the first nine months of 2022 versus the same period in 2021, due largely to by-product species mix and improved price realizations.

## *Operations*

Lumber production in the first nine months of 2022 was 517 million board feet, 11% lower than the same period last year. Production declined due to log-supply related operating curtailments in the first half of 2022, and market-related curtailments, maintenance and capital projects in the third quarter of 2022.

Log production for the first nine months of 2022 was 2.5 million cubic metres, an increase of 3% from the same period last year. Harvesting was partly impacted by late snow early in 2022 and permitting approval delays, but favourable weather supported uninterrupted logging through the summer. We reduced log harvest late in the third quarter of 2022 to more closely match log supply to mill requirements. The comparative period included an incremental 134,000 cubic metres of log harvest from private timberlands associated with the sale of the Orca Quarry assets.

Increased tenure harvest and a 92% increase in average stumpage rate, as compared to the first nine months in 2021, resulted in an incremental \$52.0 million in stumpage expensed.

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

We increased our BC coastal saw log purchases by 42% to 920,000 cubic metres, as compared to the same period last year to ensure fibre availability for sawmill operations.

Freight expense for the first nine months of 2022 was \$82.7 million, an increase of 15% as compared to same period last year despite an 9% decline in lumber shipments and the absence of log exports. Freight expense increased due to a 36% increase in container freight rates over the same period last year, the increased use of higher cost breakbulk shipments to partly mitigate limited container availability, and higher fuel costs. Although global logistics constraints started to ease in mid 2022, container and breakbulk rates remained higher than the comparative period.

Adjusted EBITDA and operating income in the first nine months of 2022 included \$34.2 million of CV and AD expense, partially offset by \$18.0 million duty recovery on finalization duty rates for shipments made in 2020, as compared to duty expense of \$25.2 million in the same period of 2021.

Excluding the export tax recovery, higher lumber prices and average cash deposit rates, and a weaker average CAD to USD exchange rate offset the impact of a 32% reduction in US-destined lumber shipments in the first nine months of 2022 as compared to the same period of 2021. Cash deposit rates in 2022 were levied at 17.91% until revised to 8.59%, on August 4, 2022, as compared to cash deposit rates of 8.99% throughout the same period of 2021.

Lumber market weakness and related declines in market pricing of inventory held at the end of the third quarter of 2022 led to net incremental inventory provisions of \$32.1 million as compared to the same period last year.

### *Selling and Administration Expense*

Selling and administration expense for the first nine months of 2022 was \$34.0 million as compared to \$44.6 million in the same period last year attributable to lower incentive compensation expense resulting from declines in the share price and earnings year-over-year.

### *Other Income*

We recognized other income of \$4.1 million in the first nine months of 2022, as compared to \$22.1 million in the same period of 2021, attributable primarily to gains from non-core asset sales, including the Orca Quarry assets. In addition, the 9% appreciation of the closing US to Canadian Dollar exchange rate from the comparative period contributed to \$3.7 million in foreign exchange gains in the first nine months of 2022 versus foreign exchange losses of \$0.1 million in the same period last year.

### *Finance Costs*

Finance costs were negligible for the first nine months of 2022, as compared to \$1.7 million to the same period of 2021, and resulting from recognition of \$1.1 million in incremental interest on the export tax recovery recorded in 2022.

### *Income Taxes*

Western recognized current income tax expense of \$26.9 million and deferred income tax expense of \$3.7 million in the first nine months of 2022. The decrease of \$21.6 million in tax expense resulted from the decrease in net income before tax over the same period last year. The first nine months of 2021 also benefitted from utilization of capital losses carried forward to offset other income earned on the sale of assets.

### *Net Income*

Net income for the third quarter of 2022 was \$83.2 million, as compared to net income of \$174.3 million for the same period last year. Compressed margins on lower shipment volumes, higher stumpage, export tax and freight rates, higher inventory provisions, partially offset by recognition of \$18.0 in export tax recovery, resulted in the decline in net income as compared to the same period of 2021.

## Leadership & Governance Update

Steven Hofer was appointed President and Chief Executive Officer effective September 7, 2022.

Cheri Phyfer, who was appointed to the Board of Directors (“Board”) effective March 2019, tendered her resignation effective November 1, 2022, for personal reasons. Fiona Macfarlane has been appointed to the Environmental, Health and Safety Committee to replace Ms. Phyfer. The Nominating and Corporate Governance Committee is engaged in a process to identify director candidates with complementary skills and experiences to support the Company’s Board succession plan, including a replacement for Ms. Phyfer.

## Business Acquisition

On August 31, 2022, Western completed the acquisition of certain assets of Calvert Company, Inc. (“Calvert”) located in Washington State for US\$12.2 million, including inventory of US\$2.7 million. The acquisition was funded from cash on hand, and operations were immediately accretive to EBITDA.

Calvert is one of the most experienced glulam manufacturers in the US, with a history of more than 60 years in producing high quality glulam beams for industrial, commercial, and residential projects around the world. Calvert has manufacturing facilities in Washougal, Washington and Vancouver, Washington with a combined annual glulam capacity of approximately 35 million board feet on a two-shift basis.

The Calvert acquisition will help position Western to capitalize on the growing North American Mass Timber building market and is consistent with our strategy of moving up the product value chain and growing our portfolio of value-added products.

Mass Timber construction, which utilizes products such as glulam and cross laminated timber, represents a significant growth opportunity in North America. There are currently over 1,300 Mass Timber projects constructed, in progress or in the design phase in North America and third-party research estimates that there will be 4.4 billion board feet of lumber demand from Mass Timber construction by 2035. In addition, Mass Timber is a natural, renewable, and sustainable building material, with a lighter carbon footprint than other conventional construction materials.

As part of the transaction, we have created an engineered wood subsidiary focused on further growth opportunities through the Mass Timber value chain.

## Indigenous Relationships

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

We actively invest time and resources in fostering mutually beneficial and positive working relationships with Indigenous groups that have traditional territories within which Western operates, including through information sharing, joint sustainable forest management planning, timber harvesting, reforestation practices and restoration initiatives. These arrangements may include business-to-business service and supply contracts, cooperating across tenures for joint forest management, creating job and training opportunities, and establishing limited partnerships with shared governance and financial interests.

In collaboration with Indigenous groups, we have achieved a series of milestone agreements that advance our mutually beneficial relationships and exemplify Western’s ongoing actions to support reconciliation. For more information on related agreements and recent initiatives, refer to our Management’s Discussion and Analysis for the second quarter of 2022 and our 2021 Annual Report, which can be found on SEDAR at [www.sedar.com](http://www.sedar.com).

### *Tree Farm Licence 44 and Alberni Pacific Division Sawmill*

Huumiis Ventures Limited Partnership (“HVLP”), a limited partnership beneficially owned by HFN, holds a 35% equity interest in Tsawak-qin Forestry Limited Partnership (“TFLP”; formerly TFL 44 Limited Partnership) and in March 2020 had agreed to acquire a further 16% equity interest in TFLP with an anticipated closing in the second quarter of 2023, subject to certain closing conditions including approval by the BC Provincial Government and a further vote by the HFN People’s Assembly. Due to changing circumstances since the time this agreement was made in 2020, we do not expect HVLP to make a further equity acquisition at this time.

The March 2020 agreement also included an option for TFLP to sell an incremental equity interest of 26% to other area First Nations. This option has now expired; however, Western, alongside the HFN, are continuing to have discussions with interested area First Nations around acquiring an interest in TFLP.

In March 2020, HVLP further agreed to acquire a 7% equity interest in a newly formed limited partnership (“APD LP”), which would hold the Alberni Pacific Division (“APD”) sawmill, with an anticipated closing in the second quarter of 2023. Due to changing circumstances since the time this agreement was made in 2020, we do not expect HVLP to make an equity acquisition in the APD LP at this time.

## **Regulatory Environment**

In recent years, the Province has introduced various policy initiatives and regulatory changes that impact the BC forest sector regulatory framework as part of a Coastal Revitalization Initiative and Interior Renewal Process, including fibre recovery, lumber remanufacturing, old growth forest management and the exportation of logs. For additional details on these policy initiatives and regulatory changes please see the “*BC Government Forest Policies Update*” heading and “*Regulatory Risks*” under the heading “*Risks and Uncertainties*”, in our Management’s Discussion and Analysis for the year ended December 31, 2021.

Current provincial policy requires that forest management and operating plans take into account and not unreasonably infringe on Aboriginal rights and title, proven or unproven, and provide for First Nations consultation. First Nation opposition to a forest tenure or other operating authorization may delay the Province from granting the permit necessary for road development and harvesting. For additional details on these policy requirements and regulatory aspects in relation to First Nations see “*First Nations Land Claims*” and “*Regulatory Risks*” under the heading “*Risks and Uncertainties*”, in our Management’s Discussion and Analysis for the year ended December 31, 2021. The Company may manage risks associated with delays in the Province granting operating authorizations by fostering positive working relationships with the First Nations, as discussed above. The Company may partly mitigate the operating impacts of permit delays by increasing permitted harvest in other areas; by purchasing more logs on the open market; and by increasing harvest from private timberlands.

### ***Old-Growth Logging Deferral***

On November 2, 2021, the Province announced its intention to work in partnership with First Nations on the proposed, temporary deferral of harvesting in 2.6 million hectares of BC forests. The Province has stated that final decisions on proposed, temporary deferral areas will be based on discussions between the Province and First Nations’ governments.

Western continues to work collaboratively with First Nations, on whose territories the Company operates, through information sharing and capacity funding to assess any potential impacts on the Company’s business. Determination of potential impacts is subject to further dialogue with the First Nations and the outcomes of their government-to-government discussions. Should the proposed measures impact Western’s business, the Company will seek support from the Province for its workers and full compensation for investments.

Western will work with First Nations and government as these decisions are made, respecting the rights and title of First Nations, including their right to economically benefit from the lands within their traditional territories. For additional details on these 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, 2021.

### ***Fibre Recovery Zones***

On April 1, 2019, the Province announced the creation of fibre recovery zones as part of the Province’s Coast Forest Sector Revitalization Initiative. Fibre recovery zones were intended to increase the supply of residual fibre from primary harvesting for secondary users.

This initiative prescribes that primary harvesters conducting operations within a fibre recovery zone will pay a multiple of the stumpage-based waste rate for applicable volumes of avoidable waste left on the harvest block, with exemptions for Cedar species and heli-logging. Effective August 1, 2022, the waste rate multiple increases from 1 to 3, with application to harvest blocks in which new harvest commences after the effective date. Certain allowances apply to reduce the effective impact to net stumpage expenses, and we continue to evaluate the potential impact to our business.

We continue to engage with the Province and the primary coastal pulp producer to ensure that the desired outcome of the policy, less fibre waste and more fibre for domestic manufacturing and pulp production, is met without the unintended consequences of higher costs and less harvest volume for timberland operators.

### *Timber Tenure Reduction*

Approximately 89% of Western's 5,914,000 cubic metre sustainable allowable annual cut ("AAC") is in the form of Tree Farm Licences ("TFL"). TFLs are granted for 25-year terms and are replaceable in nature, under the *Forest Act* requiring that the Province offer a new 25-year term replacement TFL every five to ten years.

In the first half of 2023, we anticipate the Province's Chief Forester to issue a final determination on the AAC in TFL 19, which is approximately 729,000 cubic metres. We expect that determination may reduce the AAC of TFL 19 by up to 17% or approximately 125,400 cubic metres.

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

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

### **COVID-19**

Western is committed to the health and safety of our employees, contractors and the communities where we operate. From the onset of the pandemic, Western has been committed to following the public health guidance in shaping our response to help mitigate the risk of COVID-19 transmission. To help mitigate the spread of COVID-19, strict health and safety protocols were implemented across our business based on guidance from health officials and experts, and in compliance with regulatory orders and standards.

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

## Financial Position and Liquidity<sup>(1)</sup>

(millions of Canadian dollars except where otherwise noted)

| Selected Cash Flow Items   | Q3<br>2022 | Q3<br>2021 | Q2<br>2022 | YTD<br>2022 | YTD<br>2021 |
|--|------------|------------|------------|-------------|-------------|
| <b>Operating activities</b>  |            |            |            |             |             |
| Net income   | \$ 6.6     | \$ 42.2    | \$ 38.6    | \$ 83.2     | \$ 174.3    |
| Amortization   | 12.7       | 12.0       | 12.8       | 38.2        | 38.2        |
| Loss (gain) on disposal of property, plant, equipment and other assets | -          | (3.3)      | 0.1        | (1.3)       | (23.4)      |
| Income tax expense   | 3.0        | 14.0       | 14.5       | 30.6        | 52.2        |
| Income tax (paid) refunded   | (3.8)      | 0.1        | (29.6)     | (91.8)      | (0.1)       |
| Share-based compensation expense (recovery)                            | 0.2        | 2.2        | (2.4)      | (1.2)       | 10.8        |
| Export tax receivable  | (18.0)     | -          | -          | (18.0)      | -           |
| Other  | (7.1)      | (3.8)      | (3.0)      | (7.0)       | 4.9         |
|  | (6.4)      | 63.4       | 31.0       | 32.7        | 256.9       |
| Change in non-cash working capital                                     | 2.2        | 19.1       | (9.0)      | (50.7)      | (15.4)      |
| Cash provided by (used in) operating activities                        | (4.2)      | 82.5       | 22.0       | (18.0)      | 241.5       |
| <b>Investing activities</b>  |            |            |            |             |             |
| Acquisition of Calvert net assets                                      | (16.1)     | -          | -          | (16.1)      | -           |
| Additions to property, plant and equipment                             | (7.3)      | (3.4)      | (5.1)      | (17.2)      | (9.3)       |
| Additions to capital logging roads                                     | (6.0)      | (3.2)      | (1.8)      | (9.0)       | (8.9)       |
| Proceeds on disposal of property, equipment and other                  | 0.5        | 5.5        | 0.2        | 2.4         | 50.1        |
| Proceeds from sale of a non-controlling interest                       | -          | -          | -          | -           | 19.8        |
| Deposits on purchase of equipment                                      | -          | -          | -          | (2.0)       | -           |
| Cash provided by (used in) investing activities                        | (28.9)     | (1.1)      | (6.7)      | (41.9)      | 51.7        |
| <b>Financing activities</b>  |            |            |            |             |             |
| Repayment of credit facility   | -          | -          | -          | -           | (70.2)      |
| Dividends  | (4.1)      | (3.6)      | (4.0)      | (11.4)      | (11.0)      |
| Share repurchases  | (10.0)     | (30.2)     | -          | (17.3)      | (62.4)      |
| Lease payments   | (1.6)      | (1.5)      | (2.0)      | (5.4)       | (5.3)       |
| Other  | (0.1)      | (2.6)      | 0.1        | (0.6)       | (4.1)       |
| Cash used in financing activities                                      | (15.8)     | (37.9)     | (5.9)      | (34.7)      | (153.0)     |
| Increase (decrease) in cash  | \$ (48.9)  | \$ 43.5    | \$ 9.4     | \$ (94.6)   | \$ 140.2    |
| <b>Summary of Financial Position</b>                                   |            |            |            |             |             |
| Cash and cash equivalents  | \$ 35.4    | \$ 143.1   | \$ 84.3    |             |             |
| Current assets   | 395.4      | 418.6      | 442.9      |             |             |
| Current liabilities  | 154.6      | 188.0      | 161.9      |             |             |
| Total debt   | -          | -          | -          |             |             |
| Net debt (cash) <sup>(2)</sup>   | (35.4)     | (143.1)    | (84.3)     |             |             |
| Equity, excluding non-controlling interest                             | 676.0      | 620.6      | 677.4      |             |             |
| Total liquidity <sup>(3)(6)</sup>                                      | 269.1      | 384.4      | 319.1      |             |             |
| <b>Financial ratios</b>  |            |            |            |             |             |
| Current assets to current liabilities <sup>(4)</sup>                   | 2.56       | 2.23       | 2.74       |             |             |
| Net debt to capitalization <sup>(5)(6)</sup>                           | 0%         | 0%         | 0%         |             |             |

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

- (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 equity.
- (6) Total liquidity and Net debt to capitalization are non-GAAP financial measures. Refer to the Non-GAAP Financial Measures section of this document for more information on each non-GAAP financial measure.

Cash used by operating activities before changes in non-cash working capital was \$6.4 million in the third quarter of 2022, a reduction from \$63.4 million provided in the comparative period last year, due to reduced margins, lower specialty sales volumes, and higher provisions.

Cash used in investing activities of \$28.9 million included \$16.1 million to acquire assets of Calvert during the third quarter of 2022, as compared to \$1.1 million used during the same period last year. Incremental investments were made in strategic capital projects and capital roads as compared to the third quarter of 2021, that included an incremental \$5.0 million in proceeds on disposal of non-core assets.

Cash used in financing activities was \$15.8 million in the third quarter of 2022, versus \$37.9 million in the same period of 2021. We returned \$14.1 million to shareholders via our quarterly dividend and common shares repurchases, as compared to a combined \$33.8 million in the same quarter of 2021.

### *Liquidity and Capital Resources*

Total liquidity was \$269.1 million at September 30, 2022, as compared to \$371.4 million at December 31, 2021 and \$384.4 million at September 30, 2021. Liquidity is comprised of cash and cash equivalents of \$35.4 million and unused availability under the credit facility of \$233.7 million.

Based on our current forecasts, we expect sufficient liquidity will be available to meet any commitments as well as our other obligations through 2022. The Company was in compliance with all its financial covenants as at September 30, 2022.

## **Dividend and Capital Allocation**

We remain committed to a balanced approach to capital allocation. To return capital to shareholders, we pay a regular quarterly dividend and complement our dividend program with strategic repurchases of common shares.

We will continue to evaluate opportunities to invest strategic and discretionary capital in jurisdictions and product lines that create the opportunity to grow long-term shareholder value. We expect to focus near-term internal strategic capital investments on projects that reduce manufacturing costs or address kiln drying and planer capacity constraints on the BC Coast. These potential investments will help support growth of our product line initiatives, as well as add value to our products. We currently have approximately \$26 million in strategic capital and other projects underway in BC, and we continue to evaluate opportunities to invest in the competitive positioning of our value-added operations. The Company will evaluate all capital allocation decisions after considering our operating results, financial condition, cash requirements, financing agreement restrictions and other factors or financial metrics that we may deem relevant.

### *Dividend*

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

On May 4, 2022, we increased our quarterly dividend from \$0.01 per common share to \$0.0125 per common share. Dividends of \$4.1 million and \$11.4 million were paid in the three- and nine-months ended September 30, 2022, respectively.

### *Normal Course Issuer Bid*

On August 3, 2022, the Company renewed its normal course issuer bid ("NCIB") permitting the purchase and cancellation of up to 27,420,905 common shares, representing 10% of the public float outstanding as of August 3, 2022. The renewed NCIB commenced on August 11, 2022, and will end no later than August 10, 2023. The Company also entered into an automatic share purchase plan with a designated broker to facilitate purchases of its common shares under the renewed NCIB at times when the Company would ordinarily not be permitted to purchase its common shares due to regulatory restrictions or self-imposed blackout periods.

Western purchased and cancelled the maximum 29,726,940 common shares permitted under its former NCIB, that was effective August 11, 2021, for \$60.7 million at an average price of \$2.04 per common share. The Company fully completed the former NCIB, resulting in a 10% reduction to the public float of common shares outstanding at August 5, 2021.

During the first nine months ended September 30, 2022, we repurchased and cancelled 9,925,015 common shares for \$17.3 million at an average price of \$1.75 per common share.

## Strategy and Outlook

Western's long-term business objective is to create superior value for shareholders by building a sustainable, margin-focused log and lumber business of scale to compete successfully in global softwood markets. We believe this will be achieved by maximizing the sustainable utilization of our forest tenures; partnering with First Nations in sustainable forest management; operating safe, efficient, low-cost manufacturing facilities; and augmenting our sales of targeted high-value specialty products for selected global customers with a lumber wholesale program. We seek to manage our business with a focus on operating cash flow and maximizing value through the production and sales cycle. We routinely evaluate our performance using the measure of Return on Capital Employed.

For more detail on our strategic initiatives and actions, refer to "*Strategy and Outlook*" in our Management's Discussion and Analysis for the year ended December 31, 2021.

### *Market Outlook*

Lumber markets remain volatile following demand regression in the third quarter caused by ongoing economic uncertainty and recessionary pressures. In response to weak demand, lumber manufacturers have implemented temporary and permanent production curtailments that may improve pricing in future quarters.

We believe that strong North American housing market fundamentals will support lumber demand and pricing, above trend levels in the mid to long-term. An aging housing stock, a housing deficit stemming from years of underbuilding, the influence of work-from-home arrangements on the repair and renovation segment, and the growth of mass timber construction are expected to continue to drive demand for lumber in the mid to long-term.

In the near-term we expect North American commodity pricing to be range-bound as market inventories are gradually reduced. A weaker Canadian dollar may partly offset any price pressures on US-destined shipments. We anticipate seasonally improved commodity demand from China.

Cedar timbers and premium appearance products remain strong, while demand for our Cedar decking, trim and fencing products has declined. We are reducing production volumes to manage market inventories. Demand for industrial products remains stable while recent pricing weakness has stabilized.

Increased lumber inventory in Japan from domestic, European and Russian manufacturers has created a supply imbalance and may impact near-term Japan product shipments. A weaker yen may impact price realizations.

We expect sawlog markets to remain stable at current levels as the impact of seasonally reduced harvest is offset by lower demand. We will seek to transact in the coastal log market opportunistically to support our sawmill requirements while managing inventory. We expect pulp log and residual chip pricing to remain relatively strong due to reduced supply.

Market conditions and log supply led to temporarily curtailing the Alberni Pacific sawmill until related conditions improve, and we anticipate curtailing the planer operation at that facility before the end of November 2022. We resumed operation at Cowichan Bay in mid-October after two weeks of market-related curtailments and we continue to monitor conditions going forward. We curtailed the Ladysmith sawmill for a week in October due to insufficient small log supply. We continue to monitor the impacts of log supply and market demand on our business.

### *Softwood Lumber Dispute*

The US application of duties on shipments of Canadian lumber continues a long-standing pattern of US protectionist action. We disagree with the inclusion of specialty lumber products, particularly Cedar products in this commodity lumber focused dispute. As duties paid are determined on the value of lumber exported, and as our shipments to the US market consists of significant volumes of high-value, appearance grade lumber, we are disproportionately impacted by these duties. For a comprehensive history of the softwood lumber trade dispute and related North American Free Trade Agreement ("NAFTA") challenge proceedings, please see "*Risks and Uncertainties*" in our Management's Discussion and Analysis for the year ended December 31, 2021.

Western expensed \$34.2 million of export duties at a combined duty rate of 17.91% on its lumber shipments into the US until August 3, 2022, and at 8.59% thereafter as compared to \$25.2 million at a duty rate of 8.99% in the same period last year. The effect of higher average duty rates and 3% appreciation of the average US to Canadian dollar exchange rate more than offset a 32% decline in the Company's US-destined lumber shipment volumes over those periods.

As the Department of Commerce (“DoC”) completes its administrative review (“AR”) of a shipment year, 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. On August 3, 2022, the DoC released its final determination for CV and AD rates resulting from its third AR of CV and AD rates for shipments in 2020, indicating a combined rate of 8.59%. As a result, Western recognized an export tax recovery of \$18.0 million in the third quarter, 2022 to reflect the difference between cash deposits made at 17.91% and the final published rate.

Cash deposits continue at the combined duty rate of 8.59%, established in the AR for 2020 lumber shipments, until the final determinations for 2021 are published, after which the new rates will apply.

Finalization of CV and AD rates and other DoC corrections for Canadian lumber shipments to the US in 2017 through 2020 resulted in an overpayment of export taxes of \$56.4 million (US\$46.5 million), which Western recorded as an export tax recovery in the current and prior years together with a long-term duty receivable on which it accrues interest.

On March 9, 2022, the DoC initiated its fourth AR of CV and AD rates for shipments for 2021.

At September 30, 2022, Western had \$202.9 million (US\$141.4 million) of cash on deposit with the US Department of Treasury in respect of these softwood lumber duties, of which \$59.6 million (US\$43.1 million) excluding interest is recognized in the Company’s balance sheet arising from final rate determinations for shipments in 2017 through 2020.

Including wholesale lumber shipments, our lumber shipments from Canada to the US market represent approximately 22% of our total lumber shipments in the third quarter of 2022, as compared to 25% in the same period last year and 31% in fiscal 2021. Our distribution and processing centre in Arlington, Washington and our Columbia Vista division in Vancouver, Washington are expected to partially mitigate the damaging effects of duties on our products destined for the US market. We intend to leverage our flexible operating platform to continue to partially mitigate any challenges that arise from this trade dispute.

## **Business Seasonality**

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

The Company’s quarterly financial trends are most impacted by typical industry-wide seasonality, levels of lumber production, log costs, market prices for lumber, labour disputes, the USD/CAD exchange rate, long term asset impairments and restructuring charges, and disposals of non-core properties. For a summary of selected results for the last eight quarters, please reference *Management’s Discussion and Analysis - Appendix A*.

## 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)

|  | Q3<br>2022 | Q3<br>2021 | Q2<br>2022 | YTD<br>2022 | YTD<br>2021 |
|--|------------|------------|------------|-------------|-------------|
| <b>Adjusted EBITDA</b>   |            |            |            |             |             |
| Net income   | \$ 6.6     | \$ 42.2    | \$ 38.6    | \$ 83.2     | \$ 174.3    |
| Add:   |            |            |            |             |             |
| Amortization   | 12.7       | 12.0       | 12.8       | 38.2        | 38.2        |
| Changes in fair value of biological assets                     | (0.2)      | 0.8        | -          | 0.3         | 3.5         |
| Operating restructuring items                                  | (0.2)      | 0.9        | 0.2        | 0.6         | 1.9         |
| Other income <sup>(1)</sup>                                    | (4.0)      | (4.0)      | (0.2)      | (4.1)       | (22.1)      |
| Finance costs (income)   | (0.7)      | 0.4        | 0.3        | -           | 1.7         |
| Income tax expense (recovery)                                  |            |            |            |             |             |
| Current  | (3.4)      | 13.6       | 14.9       | 26.9        | 53.6        |
| Deferred   | 6.4        | 0.4        | (0.4)      | 3.7         | (1.4)       |
| Adjusted EBITDA  | \$ 17.3    | \$ 66.3    | \$ 66.2    | \$ 148.9    | \$ 249.7    |
| <b>Adjusted EBITDA margin</b>                                  |            |            |            |             |             |
| Total revenue  | \$ 356.0   | \$ 352.9   | \$ 437.4   | \$ 1,153.0  | \$ 1,089.8  |
| Adjusted EBITDA  | 17.3       | 66.3       | 66.2       | 148.9       | 249.7       |
| Adjusted EBITDA margin   | 5%         | 19%        | 15%        | 13%         | 23%         |
| <b>Net debt to capitalization</b>                              |            |            |            |             |             |
| Net debt   |            |            |            |             |             |
| Total debt   | \$ -       | \$ -       | \$ -       |             |             |
| Cash and cash equivalents                                      | (35.4)     | (143.1)    | (84.3)     |             |             |
| Net debt (cash)  | \$ (35.4)  | \$ (143.1) | \$ (84.3)  |             |             |
| Capitalization   |            |            |            |             |             |
| Net debt (cash)  | \$ (35.4)  | \$ (143.1) | \$ (84.3)  |             |             |
| Add: equity attributable to equity shareholders of the Company | 676.0      | 620.6      | 677.4      |             |             |
| Capitalization   | \$ 640.6   | \$ 477.5   | \$ 593.1   |             |             |
| Net debt to capitalization                                     | -          | -          | -          |             |             |
| <b>Total liquidity</b>   |            |            |            |             |             |
| Cash and cash equivalents                                      | \$ 35.4    | \$ 143.1   | \$ 84.3    |             |             |
| Available credit facility                                      | 250.0      | 250.0      | 250.0      |             |             |
| Less outstanding letters of credit                             | (16.3)     | (8.7)      | (15.2)     |             |             |
| Total liquidity  | \$ 269.1   | \$ 384.4   | \$ 319.1   |             |             |

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

(1) Other income, net of changes in fair market value less cost to sell of biological assets.

## Accounting Policies and Standards

Several new standards, and amendments to existing standards and interpretations, were not yet effective as at September 30, 2022, and have not been applied in preparing the Company's unaudited condensed consolidated interim financial statements. None of the standards are currently considered by the Company to be significant or likely to have a material impact on future financial statements.

In the Company's unaudited condensed consolidated interim financial statements, the Company has disclosed its significant accounting policies with respect to business combinations and goodwill which were not disclosed in the Company's annual financial statements for the year ended December 31, 2021. The accounting policy for business combinations is consistent with the policy applied by the Company in previous years for business

combinations. The policy disclosed for goodwill is new as the Company has not previously recorded goodwill. Please see the note 3 to the Company's unaudited condensed consolidated interim financial statements for further details.

## **Critical Accounting Estimates**

For a review of significant management judgements affecting financial results and critical accounting estimates, please see our 2021 Annual Report, which can be found on SEDAR at [www.sedar.com](http://www.sedar.com). There were no changes to critical accounting estimates during the three and nine months ended September 30, 2022.

## **Financial Instruments and Other Instruments**

We use various financial instruments to reduce the impact of movement in foreign exchange rates on our net income. Please see our Management Discussion and Analysis for the year ended December 31, 2021 for a further discussion on our use of financial instruments. There were no changes to our use of financial instruments during the three and nine months ended September 30, 2022.

## **Off-Balance Sheet Arrangements**

The Company has off-balance sheet arrangements which include letters of credit and surety performance and payment bonds, primarily for timber purchases and CV and AD duty deposits. At September 30, 2022, such instruments aggregated \$18.1 million (December 31, 2021 - \$14.5 million). Off-balance sheet arrangements have not had, and are not reasonably likely to have, any material impact on the Company's current or future financial condition, results of operations or cash flows.

## **Related Party Transactions**

Other than transactions in the normal course of business with the Board of Directors and key management personnel, the Company had no transactions between related parties in the three and nine months ended September 30, 2022.

## **Risks and Uncertainties**

The business of the Company is subject to several risks and uncertainties, including those described in the 2021 Annual Report which can be found on SEDAR at [www.sedar.com](http://www.sedar.com). 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 and nine months ended September 30, 2022.

## **Internal Controls over Financial Reporting**

There have been no changes in the Company's internal controls over financial reporting ("ICFR") during the three months ended September 30, 2022, that have materially affected, or are reasonably likely to materially affect, its ICFR.

## **Outstanding Share Data**

As of November 3, 2022, there were 316,742,746 common shares of the Company issued and outstanding.

We have reserved 30,000,000 of our Shares for issuance upon the exercise of options granted under our incentive stock option plan. During the nine months ended September 30, 2022, 500,000 options were granted, 250,000 previously granted options were exercised and no options were forfeited. As of November 3, 2022, 15,497,304 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.sedar.com](http://www.sedar.com).

## 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)

|  | 2022               |          |          | 2021     |          |          |          | 2020     |          |
|--|--------------------|----------|----------|----------|----------|----------|----------|----------|----------|
|  | Q3                 | Q2       | Q1       | Q4       | Q3       | Q2       | Q1       | Q4       |          |
| Average exchange rate – USD to CAD         | 1.305              | 1.276    | 1.267    | 1.260    | 1.260    | 1.228    | 1.265    | 1.303    |          |
| Average exchange rate – CAD to USD         | 0.766              | 0.783    | 0.789    | 0.793    | 0.794    | 0.814    | 0.790    | 0.767    |          |
| <b>Financial performance</b>               |                    |          |          |          |          |          |          |          |          |
| Revenue                                    |                    |          |          |          |          |          |          |          |          |
| Lumber                                     | \$ 267.1           | \$ 351.8 | \$ 313.9 | \$ 268.0 | \$ 299.8 | \$ 353.1 | \$ 276.6 | \$ 256.6 |          |
| Logs                                       | 72.5               | 70.8     | 32.7     | 48.9     | 41.0     | 46.3     | 33.1     | 53.4     |          |
| By-products and other                      | 16.4               | 14.8     | 13.0     | 11.0     | 12.1     | 15.0     | 12.8     | 8.9      |          |
| Total revenue                              | \$ 356.0           | \$ 437.4 | \$ 359.6 | \$ 327.9 | \$ 352.9 | \$ 414.4 | \$ 322.5 | \$ 318.9 |          |
| Adjusted EBITDA                            | \$ 17.3            | \$ 66.2  | \$ 65.4  | \$ 52.5  | \$ 66.3  | \$ 120.4 | \$ 62.9  | \$ 71.1  |          |
| Adjusted EBITDA margin                     | 5%                 | 15%      | 18%      | 16%      | 19%      | 29%      | 20%      | 22%      |          |
| Net income                                 | \$ 6.6             | \$ 38.6  | \$ 38.0  | \$ 28.5  | \$ 42.2  | \$ 78.3  | \$ 53.8  | \$ 34.4  |          |
| Earnings per share                         |                    |          |          |          |          |          |          |          |          |
| Basic                                      | \$ 0.02            | \$ 0.12  | \$ 0.12  | \$ 0.08  | \$ 0.12  | \$ 0.21  | \$ 0.14  | \$ 0.09  |          |
| Diluted                                    | \$ 0.02            | \$ 0.12  | \$ 0.11  | \$ 0.08  | \$ 0.12  | \$ 0.21  | \$ 0.14  | \$ 0.09  |          |
| <b>Operating statistics</b>                |                    |          |          |          |          |          |          |          |          |
| <b>Lumber <sup>(1)</sup></b>               |                    |          |          |          |          |          |          |          |          |
| Production                                 | Mmfbm              | 169      | 173      | 175      | 179      | 175      | 207      | 199      | 180      |
| Shipments                                  | Mmfbm              | 179      | 197      | 186      | 164      | 193      | 221      | 204      | 204      |
| Price                                      | \$/mfbm            | \$ 1,495 | \$ 1,786 | \$ 1,688 | \$ 1,634 | \$ 1,553 | \$ 1,598 | \$ 1,356 | \$ 1,258 |
| <b>Logs <sup>(2)</sup></b>                 |                    |          |          |          |          |          |          |          |          |
| Net production                             | 000 m <sup>3</sup> | 800      | 904      | 748      | 700      | 690      | 1,012    | 688      | 901      |
| Saw log purchases                          | 000 m <sup>3</sup> | 302      | 328      | 290      | 211      | 227      | 227      | 195      | 222      |
| Log availability                           | 000 m <sup>3</sup> | 1,102    | 1,232    | 1,038    | 911      | 917      | 1,239    | 883      | 1,123    |
| Shipments                                  | 000 m <sup>3</sup> | 404      | 391      | 167      | 378      | 325      | 351      | 284      | 471      |
| Price <sup>(3)</sup>                       | \$/m <sup>3</sup>  | \$ 172   | \$ 166   | \$ 163   | \$ 117   | \$ 120   | \$ 127   | \$ 110   | \$ 109   |
| <b>Share Repurchases and Dividends</b>     |                    |          |          |          |          |          |          |          |          |
| Shares repurchased                         | # millions         | 6.5      | -        | 3.4      | 17.4     | 14.6     | 14.4     | 1.3      | -        |
| Shares repurchased                         | \$ millions        | \$ 10.0  | \$ -     | \$ 7.3   | \$ 34.5  | \$ 30.2  | \$ 29.9  | \$ 2.3   | \$ -     |
| Dividends paid                             | \$ millions        | \$ 4.1   | \$ 4.0   | \$ 3.3   | \$ 3.3   | \$ 3.6   | \$ 3.6   | \$ 3.8   | \$ -     |
| <b>Non-GAAP Financial Measures</b>         |                    |          |          |          |          |          |          |          |          |
| Net income                                 | \$                 | 6.6      | 38.6     | 38.0     | 28.5     | 42.2     | 78.3     | 53.8     | 34.4     |
| Add:                                       |                    |          |          |          |          |          |          |          |          |
| Amortization                               |                    | 12.7     | 12.8     | 12.7     | 12.7     | 12.0     | 13.3     | 12.9     | 14.3     |
| Changes in fair value of biological assets |                    | (0.2)    | -        | 0.5      | 0.2      | 0.8      | 1.5      | 1.2      | 1.2      |
| Operating restructuring items              |                    | (0.2)    | 0.2      | 0.6      | 0.8      | 0.9      | 0.5      | 0.5      | 0.6      |
| Other expense (income) <sup>(4)</sup>      |                    | (4.0)    | (0.2)    | 0.1      | (0.3)    | (4.0)    | (1.4)    | (16.7)   | 6.2      |
| Finance costs (income)                     |                    | (0.7)    | 0.3      | 0.4      | 0.2      | 0.4      | 0.4      | 0.9      | (0.5)    |
| Income tax expense (recovery)              |                    |          |          |          |          |          |          |          |          |
| Current                                    |                    | (3.4)    | 14.9     | 15.4     | 10.5     | 13.6     | 31.2     | 8.8      | -        |
| Deferred                                   |                    | 6.4      | (0.4)    | (2.3)    | (0.3)    | 0.4      | (3.3)    | 1.5      | 15.1     |
| <b>Adjusted EBITDA</b>                     | \$                 | 17.3     | 66.2     | 65.4     | 52.5     | 66.3     | 120.4    | 62.9     | 71.1     |
| Divided by total revenue                   |                    | 356.0    | 437.4    | 359.6    | 327.9    | 352.9    | 414.4    | 322.5    | 318.9    |
| <b>Adjusted EBITDA margin</b>              |                    | 5%       | 15%      | 18%      | 16%      | 19%      | 29%      | 20%      | 22%      |

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

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

(2) Coastal BC business only. Net production is sorted log production, net of residuals and waste. Log availability is net production plus saw log purchases.

(3) The average realized log price per cubic metre has been presented on a gross basis, which may include fee-in-lieu and shipping charges incurred on behalf of customers to facilitate sales to export markets.

(4) Other expense (income), net of changes in fair market value less cost to sell of biological assets.