



Western Forest Products Inc.

DEFINING A HIGHER STANDARD™

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FOR IMMEDIATE RELEASE

TSX: WEF

Western Announces First Quarter 2018 Results

May 2, 2018 – Vancouver, British Columbia – Western Forest Products Inc. (TSX: WEF) (“Western” or the “Company”) reported adjusted EBITDA of \$43.0 million in the first quarter of 2018, compared to adjusted EBITDA of \$34.0 million in the first quarter of 2017, and \$38.9 million reported in the fourth quarter of 2017. Operating income prior to restructuring and other income was \$32.6 million in the first quarter of 2018, compared to \$23.9 million in first quarter of 2017, and \$30.3 million reported in the fourth quarter of 2017. Improved product pricing and lower manufacturing costs more than offset the impacts of rising stumpage rates and \$9.7 million of US export lumber duty expense in the first quarter of 2018.

The Company generated revenue of \$291.6 million in the first quarter of 2018, as compared to \$287.7 million in the first quarter of 2017, and \$283.1 million in the fourth quarter of 2017. The Company increased first quarter revenue despite the current suspension of its export log sales program in support of supplying logs to its coastal sawmills.

Q1 2018 HIGHLIGHTS

- Delivered adjusted EBITDA of \$43.0 million, a 26% increase from the same period last year
- Completed the acquisition of a distribution and processing centre in Arlington, Washington
- Returned \$7.9 million to shareholders via the Company’s quarterly dividend
- Announced a 12.5% increase in our quarterly dividend to \$0.0225 per common share

“Markets for our products continue to perform well, and I’m encouraged by the progress we have made in lowering manufacturing costs and delivering improved operating margins,” said Don Demens, President and Chief Executive Officer. “We successfully rebuilt log inventories in the quarter which we expect to drive further improvements in our manufacturing operations leading into the spring building season.”

Net income of \$21.7 million (\$0.05 per diluted share) was reported for the first quarter of 2018, as compared to \$16.2 million (\$0.04 per diluted share) for the first quarter of 2017 and \$18.9 million (\$0.05 per diluted share) in the fourth quarter of 2017.

The Company’s Board of Directors has approved a 12.5% increase in the Company’s quarterly dividend to \$0.0225 per common share, payable June 15, 2018 to shareholders of record on June 1, 2018. The dividend increase aligns with the Company’s balanced approach to capital allocation.

FINANCIAL SUMMARY

<i>(millions of dollars except per share amount and where otherwise noted)</i>	As at and for the three months ended March 31,	
	2018	2017
Revenue	\$ 291.6	\$ 287.7
Adjusted EBITDA	43.0	34.0
Adjusted EBITDA margin	14.7%	11.8%
Operating income prior to restructuring items and other income	32.6	23.9
Net income for the period	21.7	16.2
Basic and diluted earnings per share (in dollars)	\$ 0.05	\$ 0.04
Net debt (cash) at March 31,	(46.9)	(34.6)
Total liquidity at March 31,	280.9	268.7

First Quarter 2018

We delivered first quarter adjusted EBITDA of \$43.0 million in 2018, overcoming US lumber export duties of \$9.7 million and rising stumpage costs. Operating income prior to restructuring items and other income increased to \$32.6 million from \$23.9 million in the same period last year. We leveraged improved log inventories to support higher sawmill uptime which delivered lower manufacturing costs.

Revenue

Lumber revenue was \$228.2 million, compared to \$225.6 million in the first quarter of 2017, as rising price realizations offset lower sales volumes. Strong global lumber demand drove a 6% increase in lumber price realizations despite a weaker sales mix and the impact of a stronger Canadian dollar ("CAD"), which was 4% higher on average against the United States dollar ("USD"). Commodity lumber increased to 50% of total lumber shipments in the first quarter of 2018, from 42% in the same quarter last year. The first quarter of 2017 included a higher mix of specialty lumber as we expedited the sale of US-bound lumber in anticipation of the application of export duties in April 2017.

First quarter log revenue was \$41.2 million in 2018, a decrease of \$4.3 million from the same period due to a weaker sales mix and the suspension of our export log sales program to supply our coastal sawmills.

By-products revenue increased to \$22.2 million in the first quarter of 2018, from \$16.6 million in the same period in 2017. Improved pulp markets drove a 36% increase in chip sales price realizations, which more than offset the impact of a stronger CAD in 2018.

Operating Costs

Lumber production was 209 million board feet, consistent with the first quarter of 2017 and 14% higher than the fourth quarter of 2017. In addition to our production volume, we provided 14 million board feet equivalent of custom cut manufacturing services for a key pulp customer in the first quarter of 2018. Increased sawmill uptime, the benefits of our margin improvement programs and a heavier mix of commodity lumber drove lower manufacturing costs quarter-over-quarter.

First quarter log production was 1,029,000 cubic metres, 13% higher than the same period last year, due to improved winter operating conditions. Rising stumpage rates and increased production from higher cost operations drove a 5% increase in harvest costs, which more than offset benefits of our simplified log sort optimization and other timberlands cost savings initiatives.

Low market log availability driven by poor operating conditions in 2017 and high coastal log export volumes have distorted coastal log market pricing, which serves as a primary input to coastal stumpage rates. As a result, first quarter 2018 stumpage rates have increased more than expected. The Provincial Government has raised concerns with export log sales which we anticipate may prompt favourable policy changes in support of supply for domestic sawmill manufacturing.

We supplemented our internal log supply with saw log purchases of 257,000 cubic metres, an 11% increase from the same quarter last year. Constrained domestic log supply led to higher market pricing for purchased logs.

Freight expense decreased by \$5.8 million as compared to the first quarter of 2017, due to reduced export log freight expense and lower lumber sales volume. A stronger CAD largely offset rising USD-denominated fuel surcharges.

Western's results for the first quarter of 2018 include \$9.7 million of export duty expense, comprised of countervailing duty ("CVD") and anti-dumping duty ("AD"), whereas no duties were applicable in the first quarter of 2017. We leveraged our margin-focused sales strategy by directing lumber sales to alternative markets to limit the impacts of duty on our business.

Selling and Administration Expense

First quarter selling and administration expense was \$8.6 million in 2018 as compared to \$8.4 million in the same period last year. Incremental expense was primarily due to investments in foundational systems and process improvements to support our growth strategy, as well as increased performance related compensation.

Net Income

Net income for the first quarter of 2018 was \$21.7 million, as compared to \$16.2 million for the same period of 2017. Improved revenue and operating margin drove an increased net income that was partly offset by export lumber taxes and higher operating restructuring items.

Operating Restructuring Items

Included in \$2.2 million of operating restructuring items in the first quarter of 2018 were \$1.0 million in severance and related expenses attributable to ongoing business optimization initiatives, \$0.6 million relating to the indefinite curtailment of our Somass sawmill, and \$0.4 million incurred to retrain employees affected by the closure of the Englewood train announced November 7, 2017. We incurred \$0.5 million in operating restructuring items in the first quarter of 2017.

Our Somass sawmill remains indefinitely curtailed as a result of rising costs associated with the US Softwood Lumber dispute and a fibre supply deficit arising from years of tenure takebacks and land use decisions. We are evaluating options to create a sustainable, long-term solution for the site, and we are considering the input of government, First Nations and other stakeholders.

Income Taxes

Current income tax expense of \$0.1 million and deferred income tax expense of \$8.0 million were recognized in net income in the first quarter of 2018, primarily relating to operating earnings. Total income tax expense was \$6.3 million in the same quarter last year.

We continue to receive deferred treatment of Canadian income taxes due to outstanding non-capital loss carryforwards, which we expect to fully utilize in 2018.

Strategy and Outlook

Western's long-term business objective is to create superior value for shareholders by building a 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, operating safe, efficient, low-cost manufacturing facilities and producing and selling high-value specialty products for global markets. We seek to manage our business with a focus on operating cash flow and maximizing the value of our fibre resource through the production cycle, from the planning of our logging operations to the production, marketing, sale and delivery of our log and lumber products. We routinely evaluate our performance using the measure Return on Capital Employed.

Market Outlook

The gradual improvement in US new home construction, and the continued strength of the repair and renovation segment, combined with the increased use of lumber in China are expected to continue to drive demand for our log and lumber products. We expect near-term pricing to be positively influenced by the spring building season.

North American demand for our Western Red Cedar ("WRC") products continues to be supported by robust repair and renovation spending. Pricing for our targeted specialty products is expected to remain strong. As anticipated, lumber pricing in Japan has improved due to a combination of steady demand and low inventories. Demand and pricing for our Niche products is expected to move higher as markets adjust to the ongoing application of US export lumber duties.

The domestic saw log market remains undersupplied despite a 28% increase in coastal log production over the first quarter of 2017, as reported by the Province of BC's Harvest Billing System. Strong domestic saw log demand is expected to support pricing despite seasonally increased production as we move through the second quarter. Demand for small-diameter saw logs and pulp logs will remain strong as pulp mills seek additional sources of fibre to capitalize on resilient pulp markets.

Softwood Lumber Dispute and US Market Update

On January 3, 2018, US Department of Commerce ("DoC") published amended final determinations, resulting in reduced, final CVD and AD rates of 14.19% and 6.04% respectively for "all other" Canadian lumber producers including Western.

During the first quarter of 2018, we expensed \$6.8 million of CVD and \$2.9 million of AD for a total of \$9.7 million, as compared to nil in the first quarter of 2017. To March 31, 2018, we have paid total CVD and AD of \$26.5 million since the latest imposition of export lumber duties by the United States beginning in April 2017.

Our shipments to the US market are predominantly high-value, appearance grade lumber, representing less than 25% of Western's total revenue in 2017. Continued strong demand and a lack of supply has supported ongoing improvements in our specialty lumber product pricing, partly offsetting the impact of duties.

The US application of duties continues a long-standing pattern of US protectionist action against Canadian lumber producers. We disagree with the US trade determination and the inclusion of specialty lumber products in this commodity lumber focused dispute.

Our recent acquisition of a distribution and processing centre in Arlington, Washington is expected to assist in mitigating the damaging effects of duties on our products destined for the US market while increasing US market sales. We intend to preserve our strong balance sheet and leverage our flexible operating platform to continue to overcome any challenges that arise from this trade dispute.

Strategic Capital Program Update

We continue to implement a strategic capital program that is designed to position Western as the only company capable of sustainably consuming the complete profile of the coastal forest and competitively manufacturing a diverse product mix for global markets.

Our strategic capital program is focused on the installation of technology that will deliver top quartile performance and improve our ability to manufacture targeted products that yield the best margin. In addition to investments in our manufacturing assets, we also allocate capital to strategic, high-return projects involving our information systems, timberlands assets, and forest inventories.

In the first quarter of 2018, we acquired a distribution and processing centre in Arlington, Washington and commenced the first phase of planned capital upgrades at that facility. We continued to make advancements with the auto-grading component of our Duke Point planer rebuild. We also made significant progress in the start-up of the timber deck enhancements at our Chemainus sawmill. That timber deck investment will support incremental production of high-value, appearance-grade timbers. In addition, we began a number of small, high-return capital projects at our other operations.

Forward Looking Statements and Information

This press release 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 "estimate", "project", "expect", "anticipate", "plan", "intend", "believe", "seek", "should", "may", "likely", "pursue" and similar references to future periods. Forward-looking statements in this press release include, but are not limited to, statements relating to: our current intent, belief or expectations with respect to market and general economic conditions, future costs, future expenditures, available harvest levels and our future operating performance, objectives, capital expenditures and strategies. 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, there can be no assurance that forward-looking statements are accurate, and actual results or performance may materially vary. Many factors could cause our actual results or performance to be materially different including: general economic conditions, international demand for lumber, competition and selling prices, international trade disputes, changes in foreign currency exchange rates, labour disruptions, natural disasters, relations with First Nations groups, changes in laws, the availability of annual allowable cut, changes in regulations or public policy, changes in opportunities and other factors referenced under the "Risks and Uncertainties" section of our MD&A in our 2017 Annual Report dated February 15, 2018. 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.

Reference is made in this press release to adjusted EBITDA which is defined as operating income prior to operating restructuring items and other income, plus amortization of property, plant, equipment, and intangible assets, impairment adjustments, and changes in fair value of biological assets. Adjusted EBITDA margin is EBITDA presented 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 International Financial Reporting Standards ("IFRS") and it is not necessarily indicative of cash available to fund cash needs. Furthermore, adjusted EBITDA does not reflect the impact of a number of 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 measure performance under IFRS. Moreover, because all companies do not calculate adjusted EBITDA and adjusted EBITDA margin in the same manner, these measures as calculated by Western may differ from similar measures as 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 Company's Management's Discussion & Analysis for the quarter ended March 31, 2018, which is available under the Company's profile on SEDAR at www.sedar.com.

Also in this press release 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 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 shareholder's equity. Current assets to current liabilities 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, however, they are meaningful in that they indicate the Company's ability to meet their obligations on an ongoing basis, and indicate whether the Company is more or less leveraged than the prior year.

Western is an integrated Canadian forest products company and the largest coastal British Columbia timberlands operator and lumber producer. The Company has an annual available harvest greater than 6 million cubic metres of timber, of which approximately 5.8 million cubic metres is from Crown lands. Western has a lumber capacity in excess of 1.1 billion board feet from seven sawmills. Principal activities of the Company include timber harvesting, sawmilling logs into specialty lumber, and value added remanufacturing. With operations and employees primarily on the coast of British Columbia and one location in Washington State, Western is a premier supplier of high-value, specialty forest products to markets worldwide.

TELECONFERENCE CALL NOTIFICATION:

Thursday, May 3, 2018 at 12:00 p.m. PST/3:00 p.m. EST

On Thursday, May 3, 2018, Western Forest Products Inc. will host a teleconference call at 12:00 p.m. PST (3:00 p.m. EST). To participate in the teleconference please dial 416-340-2217 or 1-800-806-5484 (passcode: 8025213#). This call will be taped, available one hour after the teleconference, and on replay until May 13, 2018 at 8:59 p.m. PST (11:59 p.m. EST). To hear a complete replay, please call 905-694-9451 / 1-800-408-3053 (passcode: 1434803#).

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