



Western Forest Products Inc.

DEFINING A HIGHER STANDARD™

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FOR IMMEDIATE RELEASE

TSX: WEF

Western Announces First Quarter 2017 Results

May 3, 2017 – Vancouver, British Columbia. As previously reported, Western Forest Products Inc. (TSX: WEF) (“Western” or the “Company”) suffered a tragic loss on April 20 when five employees were injured, three fatally, during a rail incident at our TFL 37 Englewood Operation near Woss, British Columbia.

“I would like to express our deepest concerns and condolences to the families, friends and coworkers affected by this tragedy. Our focus at this time remains on caring for the families impacted by this loss and providing support to help employees, their family members and the community cope during this extremely difficult time. The well-being and safety of our employees is of paramount importance,” said Don Demens, President and Chief Executive Officer. “I would like to thank the emergency responders throughout northern Vancouver Island that responded to the incident. We are humbled by the support we have received from them, the community and the industry.”

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Western reported adjusted EBITDA of \$34.0 million in the first quarter of 2017, compared to adjusted EBITDA of \$35.7 million in the first quarter of 2016, and \$33.8 million reported in the fourth quarter of 2016. Accelerating log and lumber pricing largely offset the impacts of poor coastal winter weather which drove higher costs for timberlands and manufacturing. Improved average price realizations for log and lumber of 16% and 8%, respectively, were supported by strong specialty log and lumber markets, constrained supply and the continued gradual improvement in lumber demand, as compared to the same quarter of 2016.

The Company successfully grew revenue to \$287.7 million in the first quarter of 2017, as compared to \$269.8 million in the first quarter of 2016, and \$293.0 million in the fourth quarter of 2016. Growing demand and accelerating pricing for the Company’s log and lumber products as compared to the same quarter last year, drove the Company’s first quarter revenue growth.

Q1 2017 HIGHLIGHTS

- Delivered adjusted EBITDA of \$34.0 million notwithstanding poor coastal winter harvest conditions
- Improved specialty sales mix to 57% of lumber shipments from 54% in the same quarter of 2016
- Achieved Company record quarterly average realized lumber price of \$985 per thousand board feet
- Returned \$7.9 million to shareholders via the Company’s quarterly dividend program
- Reduced net debt by \$15.4 million in the quarter to zero and increased liquidity to \$268.7 million

“We grew specialty lumber shipments and capitalized on accelerating lumber pricing to overcome weather constrained log supply and deliver another strong adjusted EBITDA result,” said Don Demens, President and Chief Executive Officer. “We’re disappointed in the US Department of Commerce’s decision to implement a duty on Canadian lumber, especially as it pertains to our specialty, appearance lumber. We are confident that Western’s robust balance sheet, lack of debt, and global market positioning will help overcome any market uncertainty from the US duty.”

Net income of \$16.2 million (\$0.04 per diluted share) was reported for the first quarter of 2017, as compared to \$17.3 million (\$0.04 per diluted share) for the first quarter of 2016. Improved price realizations largely offset the impacts of difficult winter weather conditions on operating costs.

FINANCIAL SUMMARY

	As at and for the three months ended March 31,	
	2017	2016
<i>(millions of dollars except per share amount and where otherwise noted)</i>		
Revenue	\$ 287.7	\$ 269.8
Adjusted EBITDA	34.0	35.7
Adjusted EBITDA margin	11.8%	13.2%
Operating income prior to restructuring items and other income	23.9	26.3
Net income from continuing operations	16.2	17.3
Net income for the period	16.2	17.3
Basic and diluted earnings per share (in dollars)	\$ 0.04	\$ 0.04
Net Debt	-	47.9
Liquidity	268.7	183.9

First Quarter 2017

In the first quarter of 2017 we generated adjusted EBITDA of \$34.0 million, a 5% decrease from the same quarter in 2016 due to difficult winter weather conditions which impacted operations and limited log availability. Improved log and lumber pricing, a 2% increase in lumber shipments and a stronger specialty lumber sales mix partially offset the weather-related impacts on our operations.

First quarter lumber revenue was \$225.6 million in 2017, an increase of 9% from the same quarter of 2016. We realized an average lumber price of \$985 per thousand board feet in the first quarter of 2017. Specialty lumber mix increased to 57% from 54% in the same quarter of last year, while we grew lumber shipments by 2% to capitalize on accelerating pricing through the quarter. We realized improved Western Red Cedar ("WRC") pricing notwithstanding cutting a lower quality grade mix of logs.

WRC lumber shipments remained stable despite a 25% reduction in total coastal cedar log harvest, as reported by the Province of BC's Harvest Billing system. We increased volumes to Japan and improved Niche shipments as compared to the same quarter last year. While commodity lumber sales volume declined, we directed volume from the US market to China to meet strong demand and to mitigate potential US-Canada softwood lumber duty exposure.

First quarter log revenue was \$45.5 million in 2017, a decrease of \$0.8 million from the same period in 2016. Strong price realizations offset a 17% decline in sales volume due to reduced opening log inventories and poor harvest volumes.

By-product revenue was \$16.6 million in the first quarter of 2017, as compared to \$17.3 million in the same period in 2016. By-product revenue declined commensurate with reduced lumber production.

Lumber production was 214 million board feet, a decrease of 3% from the first quarter of 2016. Stronger operating performance from our Saltair and Ladysmith sawmills largely offset log related downtime at our Somass and Alberni Pacific sawmills. Beginning in early February 2017, the Somass sawmill was fully curtailed and operations at our Alberni Pacific division were reduced to one shift. Operating curtailments and reduced log supply contributed to an increase in manufacturing costs.

Timberlands log harvest decreased by 12% as compared to the same quarter of 2016, as prolonged winter weather limited harvest production. Log supply was supplemented by sawlog purchases of 231,000 cubic metres, a reduction from 268,000 in the same quarter last year due to reduced coastal supply. Harvest costs increased by 6% in the first quarter of 2017 due to the reduced harvest volume and storm damage costs.

Increased China shipments coupled with higher lumber sales volumes resulted in a \$5.1 million increase in first quarter freight costs as compared to the same period of 2016.

Selling and administration expense in the first quarter of 2017 increased to \$8.4 million from \$6.8 million in the same period of 2016. A significant relative increase in the value of the Company's common share price, period-over-period, and more outstanding share units were the primary drivers for a \$1.0 million increase in mark-to-market, performance and share-based compensation. The Company's common share price appreciated by 15% in the first quarter of 2017, as compared 2% in the same period last year. In addition, the Company incurred incremental costs as a result of ongoing system and process improvement initiatives.

Net income for the first quarter of 2017 was \$16.2 million, compared to \$17.3 million for the same period of 2016. A decrease in operating income was partially offset by lower finance costs and reduced tax expense.

Finance Costs

First quarter finance costs were \$0.7 million in 2017, a reduction of \$0.4 million from the same quarter of 2016. All drawings on the Company's debt facilities were fully repaid in the first quarter of 2017 resulting in lower interest expense.

Income Taxes

During the first quarter of 2017, current income tax expense of \$0.2 million and deferred income tax expense of \$6.1 million was recognized on net income, primarily relating to operating earnings.

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 utilization of our forest tenures, operating efficient, low-cost manufacturing facilities and producing high-value softwood lumber and logs 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 and sale of our log and lumber products.

The following strategic initiatives will continue to guide our focus:

Strengthen the Foundation

We have developed a track record for consistently delivering positive operating income and positioning the balance sheet to maximize flexibility in the face of uncertainty.

We have announced or implemented \$101.9 million of strategic capital investments to strengthen our operating platform and position Western as the only company on the coast of BC capable of consuming the profile of the coastal forest and competitively manufacturing a diverse product mix. Recent capital investment information is presented below under Strategic Capital Program Update.

Recently completed and activated strategic capital investments have facilitated the consolidation of our manufacturing operations. By advancing the recapitalization and consolidation of our coastal operating base, we have improved the financial performance and stability of our business.

We continue to invest in people and systems to create a platform for growth and to facilitate the acceleration of our pursuit of margin-focused growth opportunities.

Grow the Base

We grew annual revenue to \$1,187.3 million in 2016, more than double the revenue reported in 2009.

We continue to optimize our operations and invest in our mills and timberlands to reduce costs, improve margins, and grow our business through increased production.

The success of our business relationships with First Nations communities continues to grow incremental log supply and has enabled Western to grow specialty lumber production. We continue to pursue opportunities for long-term, mutually beneficial relationships with coastal First Nations.

We have implemented a non-capital margin improvement program to optimize our supply chain and further consolidate our business.

From a product marketing perspective, we are delivering on a strategy that drives increased market share through the sale of targeted products of scale to selected customers who value our product offerings.

Explore Opportunities

We are evaluating all opportunities to grow market share in targeted products and drive shareholder value.

Our ongoing reinvestment in and consolidation of our coastal operating base, steady improvements in our operating performance and a strong balance sheet have positioned Western to actively pursue external growth opportunities.

Market Outlook

We remain confident that over the mid to long term, growth in the US new home construction and repair and renovation markets, as well as increasing demand from China, combined with reduced supply from the BC Interior as a result of Mountain Pine Beetle, will deliver an improved pricing environment for our products.

In the near-term, we expect US lumber prices to increase as a result of improved market conditions and the application of duties on Canadian lumber. Higher US lumber prices are expected to impact global softwood flows by motivating US lumber and log exporters to redirect supply to their domestic market and by attracting European supply to the US market. We believe these global market dynamics will create opportunities for Western.

A combination of reduced supply and improved demand from an active repair and renovation segment has driven WRC lumber prices higher. As annualized lumber consumption peaks in the second quarter we anticipate that pricing will continue to rise. Demand and pricing for our Niche products should remain stable.

We expect lumber demand in Japan to remain robust as we close out the first half of 2017. We believe strong demand, coupled with rising freight costs for European suppliers, will support pricing for our lumber in the second quarter.

China imported a record amount of softwood logs and lumber in 2016. Demand from China continued to grow in the first quarter and we expect that trend to continue through the second quarter, supporting higher pricing.

Strong demand in export and domestic log markets and constrained supply is expected to deliver further price improvements. The pulp log market is expected to improve modestly as pulp log inventories remain low, also due to reduced coastal harvest.

Updated on Softwood Lumber Dispute

In November 2016, a petition was filed by a coalition of US lumber producers to the US Department of Commerce (“DoC”) and International Trade Commission (“ITC”) requesting an investigation into alleged subsidies provided to Canadian lumber producers. The Canadian industry and Canadian governments strongly deny these assertions which have previously been disproven in international courts.

On April 24, 2017, the DoC announced a countervailing duty (“CVD”) of 19.88% for “all other” Canadian lumber producers including Western. The DoC also made a preliminary determination on critical circumstances that resulted in 90-day retroactive application of CVD.

Cash deposits for CVD were required for lumber imports to the US effective April 28, 2017, and we have estimated that the 90-day retroactive duty obligations arising from the DoC’s April 24, 2017 preliminary finding of critical circumstances is USD \$8.8 million.

Preliminary findings of the anti-dumping investigation are expected in late June 2017. We intend to maintain our strong balance sheet and diversified product and geographic mix as we await the outcome of the trade discussions.

Strategic Capital Program Update

We continue to implement a strategic capital program that is designed to position Western as the only company on the coast of BC 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 proven technology that will deliver top quartile performance and improve our ability to manufacture the 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 2017, we continued the strategic investment in our Chemainus sawmill with the commencement of a timber deck expansion project, and advanced the Duke Point planer modernization. The Chemainus sawmill timber deck expansion and Duke Point planer modernization are scheduled for completion in 2017.

We have announced plans for \$101.9 million of our \$125 million strategic capital program. Through the first quarter of 2017, we have implemented and capitalized \$90.0 million under that program. Uncertainty arising from the softwood lumber trade dispute has caused us to defer the commencement of additional potentially significant capital projects plans, however a number of high-return, low-cost strategic capital projects are in the late stages of planning or ready for implementation.

Non-Core Assets Update

On March 29, 2017, we entered into a conditional agreement for the sale of our former South Vancouver Island Remanufacturing operation for \$3.2 million. The South Island Remanufacturing plant was indefinitely curtailed in March 2016. Material conditions of this agreement were removed on April 21, 2017 and the completion date is August 19, 2017. Net of closing costs, proceeds are estimated to be \$3.0 million and we expect to recognize a gain on disposition in the third quarter of 2017.

We continue to evaluate the timing of sale of non-core assets and expect to accelerate the marketing and disposition of certain non-core assets.

Forward Looking Statements and Information

This press release contains statements which constitute forward-looking statements and forward-looking information within the meaning of applicable securities laws. Those statements and information appear in a number of places in this document and include statements and information regarding our current intent, belief or expectations primarily with respect to market and general economic conditions, future costs, expenditures, available harvest levels and our future operating performance, objectives and strategies. Such statements and information may be indicated by words such as “estimate”, “expect”, “anticipate”, “plan”, “intend”, “believe”, “should”, “may” and similar words and phrases. Readers are cautioned that it would be unreasonable to rely on any such forward-looking statements and information as creating any legal rights, and that the statements and information are not guarantees and may involve known and unknown risks and uncertainties, and that actual results and objectives and strategies may differ or change from those expressed or implied in the forward-looking statements or information as a result of various factors. Such risks and uncertainties include, among others: general economic conditions, competition and selling prices, changes in foreign currency exchange rates, labour disruptions, natural disasters, relations with First Nations groups, changes in laws, regulations or public policy, misjudgements in the course of preparing forward-looking statements or information, changes in opportunities and other factors referenced under the “Risks and Uncertainties” section of our MD&A in our 2016 Annual Report dated February 16, 2017. All written and oral forward-looking statements or information attributable to us or persons acting on our behalf are expressly qualified in their entirety by the foregoing cautionary statements. Except as required by law, Western does not expect to update forward-looking statements or information as conditions change.

Reference is made in this report 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, 2017, which is available under the Company’s profile on SEDAR at www.sedar.com.

Also in 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 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 is the largest coastal British Columbia woodland operator and lumber producer. The Company has an annual available harvest of approximately 6.1 million cubic metres of timber, of which approximately 5.9 million cubic metres is from Crown lands. Western has a lumber capacity in excess of 1.1 billion board feet from seven sawmills and one remanufacturing plant. Principal activities conducted by the Company include timber harvesting, reforestation, sawmilling logs into lumber and wood chips, and value-added remanufacturing. Substantially all of Western’s operations, employees and corporate facilities are located in the coastal region of British Columbia, with sales worldwide.

TELECONFERENCE CALL NOTIFICATION:

Thursday, May 4, 2017 at 12:00 p.m. PST/3:00 p.m. EST

On Thursday, May 4, 2017, 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 416-340-2219 or 1-800-273-9672. This call will be taped, available one hour after the teleconference, and on replay until May 15, 2017 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: 1792528#).

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