



Western Forest Products Inc.
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TSX: WEF

Western Announces First Quarter 2019 Results

May 1, 2019 – Vancouver, British Columbia – Western Forest Products Inc. (TSX: WEF) (“Western” or the “Company”) reported adjusted EBITDA of \$18.1 million in the first quarter of 2019. Results were impacted by challenging markets and difficult operating conditions which led to higher operating costs. Prolonged winter weather delayed typical spring lumber demand and led to operational downtime in both our mills and timberlands. In response, we leveraged our flexible operating platform, scaling back commodity production to match market demand and delivered an improved specialty sales mix to partly mitigate a weaker pricing environment.

First Quarter Highlights

- Completed the acquisition of the assets of Columbia Vista Corporation in Vancouver, Washington
- Completed the sale of 7% interest in the Port Alberni Forest Operation to the Huu-ay-aht First Nations
- Substantially completed building and equipment upgrades at Arlington
- Accelerated wholesale lumber activity, more than doubling purchase volume
- Returned \$8.6 million to shareholders via regular, quarterly dividend
- Completed \$7.4 million of share repurchases, cancelling 3.9 million common shares

Western’s adjusted EBITDA result of \$18.1 million in the first quarter of 2019 compared to adjusted EBITDA of \$43.0 million in the first quarter of 2018, and \$18.0 million reported in the fourth quarter of 2018. Operating income prior to restructuring and other income was \$5.7 million in the first quarter of 2019, compared to \$32.6 million in first quarter of 2018, and \$7.7 million reported in the fourth quarter of 2018.

Net income of \$1.9 million (\$nil per diluted share) was reported for the first quarter of 2019, as compared to \$21.7 million (\$0.05 per diluted share) for the first quarter of 2018 and \$5.3 million (\$0.02 per diluted share) in the fourth quarter of 2018.

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

	Q1 2019	Q1 2018	Q4 2018
Total revenue	\$ 275.7	\$ 291.6	\$ 284.8
Export tax	\$ 9.2	\$ 9.7	\$ 10.1
Stumpage	\$ 12.3	\$ 10.5	\$ 13.8
Adjusted EBITDA	\$ 18.1	\$ 43.0	\$ 18.0
Adjusted EBITDA margin	6.6%	14.7%	6.3%
Operating income prior to restructuring items and other income (expense)	\$ 5.7	\$ 32.6	\$ 7.7
Net income for the period	1.9	21.7	5.3
Basic and diluted earnings per share (in dollars)	\$ -	\$ 0.05	\$ 0.02
Net debt (cash) - end of period	\$ 72.4	\$ (46.9)	\$ (2.4)
Total liquidity - end of period	175.7	280.9	250.4

“Despite current lumber market challenges, we took significant steps in advancing our specialty-focused strategy, including the acquisition of Columbia Vista, accelerated wholesale activity and advanced our mutually beneficial partnership with the Huu-ay-aht First Nations,” said Don Demens, President and Chief

Executive Officer. “We are pleased with the progress we’ve made integrating our Columbia Vista division and look forward to the contribution this operation will make to our business going forward.”

The Company generated revenue of \$275.7 million in the first quarter of 2019, as compared to \$291.6 million in the first quarter of 2018, and \$284.8 million in the fourth quarter of 2018. The Company mitigated the impacts of a slow start to the spring building season by reducing the production and sales of lower value commodity products. The improved mix resulted in a slightly higher average lumber price.

On February 1, 2019, the Company completed its acquisition of certain assets of Columbia Vista Corporation and related entities located in Vancouver, Washington for US\$28.4 million, and on March 29, 2019, completed the sale of a 7% interest in the newly formed TFL 44 Limited Partnership to the Huu-ay-aht First Nations. Western also published its first sustainability report, highlighting the Company’s governance, environmental and social practices and performance during 2018.

Summary of First Quarter 2019 Results

Adjusted EBITDA for the first quarter of 2019 was \$18.1 million, as compared to \$43.0 million from the same period last year. Results were impacted by challenging markets and difficult operating conditions which led to higher operating costs. Shipments declined as we reduced operating hours to align production to market demand. Operating income prior to restructuring items and other income decreased to \$5.7 million from \$32.6 million in the same period last year.

During the first quarter we continued to successfully advance our strategy as we completed the acquisition of the Columbia Vista operation in Vancouver, Washington, and closed the sale of a 7% interest in our newly formed TFL 44 Limited Partnership to the Huu-ay-aht First Nations.

Sales

Lumber revenue was \$218.9 million, which was 4% lower than the same period last year. Shipment volumes decreased 6% due to slowing US housing starts and as extended winter in North America delayed seasonal demand. Average lumber pricing benefited from the successful execution of our sales and marketing strategy and a weaker Canadian dollar.

Specialty lumber revenue was supported by higher production from our Duke Point sawmill which drove a 30% increase in Niche product sales quarter-over-quarter. Sales volumes of Western Red Cedar (“WRC”) declined 15% compared to last year as poor weather impacted market demand. First quarter Japan lumber shipments declined 14%. The addition of Columbia Vista led to an increase in Douglas fir product sales to Japan which was more than offset by weakness in sales of Hemlock and Yellow Cedar. Hemlock market share has been challenged by subsidized Japanese domestic species. We successfully mitigated commodity lumber price declines by increasing our direct sales to China by 56% compared to last year. Specialty lumber represented 52% of first quarter shipments, unchanged from the same period last year but an increase from the 49% we achieved in the fourth quarter of 2018.

First quarter log revenue was \$41.2 million, consistent with the first quarter of 2018. A stronger domestic saw log sales mix offset declining log pricing. Log shipments were flat compared to the first quarter of 2018, as increased pulp log sales volumes offset lower export and domestic shipments. Our export log volume in the period originated from a First Nation timber purchase agreement managed by Western.

British Columbia (“BC”) coastal chip pricing declined 17% compared to the same period last year. Declining prices and lower production due to mill curtailments led to a 30% decrease in by-products revenue. By-products revenue in the first quarter of 2018 included \$2.6 million related to third-party custom production at our Ladysmith sawmill.

Operations

Lumber production of 202 million board feet was 3% lower than the first quarter of 2018. We grew production at our Duke Point sawmill through increased hours and improved operating performance. Challenging commodity lumber markets led to reduced operations at our commodity-focused sawmills. Our newly acquired Columbia Vista division contributed incremental production of 10 million board feet in the quarter.

First quarter BC coastal manufacturing costs were 20% higher than the same period last year due to challenging operating conditions. Included in higher operating costs was \$1.7 million associated with temporary mill curtailments, and higher natural gas costs due to a temporary supply disruption.

Log production from our BC coastal operations was 922,000 cubic metres, 10% lower than the same period last year. Decreased log production was primarily due to curtailed Englewood operations. Our BC coastal log inventory was 5% lower at March 31, 2019, as compared to the same time last year.

Our BC coastal harvest costs increased by 12% from the first quarter of 2018, primarily driven by a 31% increase in per unit stumpage costs and a mix of higher cost operations. Coastal stumpage inflation has resulted from BC Provincial Government stumpage equation updates, the ongoing influence of coastal log exports, and log markets that have been unresponsive to weaker lumber pricing. As a result of the misalignment between the coastal stumpage system and lumber market pricing, we resumed export log sales in the second quarter of 2019.

BC coastal saw log purchases were 208,000 cubic metres, a 22% decrease from the same quarter last year due to lower market log availability. Strong demand from export markets and pulp manufacturers and lower harvest levels, due in part to rising stumpage rates, have limited market log supply to domestic sawmills.

Consistent with our strategy, we increased direct lumber sales to China to mitigate weak North American lumber pricing. Increased direct sales volumes to China combined with the impact of a weaker Canadian dollar ("CAD") on United States dollar ("USD") denominated freight and fuel costs led to a \$1.8 million increase in freight expense compared to the first quarter of 2018.

First quarter adjusted EBITDA and operating income included \$9.2 million of countervailing duty ("CVD") and anti-dumping duty ("AD"), as compared to \$9.7 million in the same quarter last year. Duty expense declined as a result of reduced shipment volume, offset by higher values for US-destined lumber shipments.

Selling and Administration Expense

First quarter selling and administration expense was \$8.8 million in 2019, as compared to \$8.6 million in the same period last year. Incremental expense arose from sales and marketing initiatives, Board recruitment, and foundational system and process improvements in support of our growth strategy.

Finance Costs

Finance costs were \$1.5 million, compared to \$0.5 million in the first quarter of 2018, primarily due to higher average outstanding debt of \$55.3 million in 2019, compared to none outstanding in 2018. The Company had drawings of \$84.0 million on the credit facility as at March 31, 2019.

As a result of adopting IFRS 16, *Leases* on January 1, 2019, we recognized \$0.2 million of finance costs on lease payments. In comparative periods, leasing finance costs were recognized in operating income.

Net Income

Net income for the first quarter of 2019 was \$1.9 million, as compared to \$21.7 million for the same period of 2018. Operating margins and net income were reduced by lower production and shipment volumes and higher operating expenses.

Columbia Vista Asset Acquisition

On February 1, 2019, we completed the asset acquisition of Columbia Vista Corporation and related entities' operations in Vancouver, Washington. This acquisition is consistent with our strategy of pursuing margin-focused business opportunities that complement our position in selected markets. Bringing Western and Columbia Vista together provides us the opportunity to expand our Douglas fir specialty product offerings, particularly in Japan, which will support our BC-based Hemlock programs. The combination of Columbia Vista and Western makes us more meaningful to our selected customers and creates a stronger company for all our employees.

Sale of Ownership Interest in Port Alberni Forest Operations

On March 29, 2019, we completed the sale of a 7% interest in our newly formed TFL 44 Limited Partnership (“TFL 44 LP”) to the Huu-ay-aht First Nations for gross proceeds of \$7.3 million. TFL 44 LP’s assets consist of TFL 44 and certain other associated assets and liabilities of our Port Alberni Forest Operation. We will continue to source fibre from TFL 44 LP to support our BC manufacturing facilities. As part of the agreement, we may sell Huu-ay-aht First Nations an incremental interest in the Limited Partnership subject to further negotiation.

Other Expense and Operating Restructuring Items

Other expense for the first quarter of 2019 includes \$0.7 million of transaction costs associated with the Columbia Vista acquisition.

Operating restructuring costs were \$2.2 million in the first quarter of 2018, due to severance and related expenses attributable to ongoing business optimization initiatives, the indefinite curtailment of our Somass sawmill and retraining of employees affected by the closure of the Englewood train.

Our Somass sawmill remains indefinitely curtailed as a result of a fibre supply deficit arising from years of tenure takebacks and government land use decisions, and rising costs associated with the United States (“US”) Softwood Lumber dispute. 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 \$0.8 million was recognized in net income in the first quarter of 2019. Total income tax expense decreased by \$7.3 million from the first quarter of 2018 as a result of lower operating earnings. As we used the majority of our remaining non-capital loss carryforwards during the second quarter of 2018, cash taxes were payable for the tax year ended December 31, 2018.

In May 2018, the Company received correspondence from the Canada Revenue Agency (“CRA”) regarding certain restructuring transactions, occurring in 2004 and 2007 to 2011, and the general anti-avoidance rule. Management believes the CRA’s position is without merit. Management is prepared to defend its position if a notice of reassessment is issued, and as such, the Company has not recognized any income tax provision as at March 31, 2019, relating to this matter.

Recent Developments - BC Government Forest Policies

In 2018, the BC Provincial Government (the “Province”) introduced a Coastal Revitalization Initiative and further policy initiatives that will affect the BC forest sector.

On April 1, 2019, the Province announced the creation of fibre recovery zones, which are intended to increase the supply of residual fibre from primary harvesting for secondary users.

On April 1, 2019, the Province announced Bill 21, *Forest and Range Practices Amendment Act, 2019*, designed to increase opportunities for public input, improve information sharing on forest planning, strengthen the Minister’s ability to manage forest activity, expand the definition of wildlife to help protect at-risk species and improve and streamline range-use planning.

On April 11, 2019, the Province announced Bill 22, *Forest Amendment Act, 2019*. If passed, the new legislation will require approval from the Minister before disposal or transfer of a tenure agreement to a third party. The Act will enable the Minister to refuse to approve a disposition or transfer if it is deemed not to be in the public interest or detrimental to competition in the buying or selling of timber or residuals, or to place conditions on the approval.

The impact that these policy initiatives may have on our operations cannot be determined at this time.

Appointment of New Independent Directors

On March 1, 2019, Western announced the appointment of Laura Cillis and Cheri Phyfer to its Board of Directors (the “Board”) in accordance with the Company’s planned Board renewal process. These appointments follow the February 12, 2019, appointment of Michael Waites to Chair of the Board.

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 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.

Sales & Marketing Strategy Update

We are progressing with the execution of our sales and marketing strategy that focuses on the production and sale of targeted, high-margin products of scale to selected customers. We supplement our key product offerings with purchased lumber to deliver the suite of products our customers require. Our Columbia Vista acquisition provides us the opportunity to expand our Douglas fir specialty product offerings, particularly in Japan. In the first quarter of 2019, we accelerated wholesale purchases to 11 million board feet in anticipation of spring building season, and sold 5 million board feet.

Market Outlook

Despite recent lumber pricing volatility and slow seasonal demand due to weather events, our long-term view of market fundamentals remains unchanged. In North America, rising lumber consumption will continue to be driven by increased new home construction, a robust repair and renovation sector and growth in the use of mass timber building technologies. We expect lumber demand in China to continue to grow due to a government commitment to housing and economic stimulus, while in Japan, lumber consumption is expected to remain relatively stable over the next few years.

In North America, prolonged winter weather has delayed the onset of the spring building season, resulting in a supply-demand imbalance and commodity lumber pricing volatility. As weather improves in North America, we expect to see recovery in demand and pricing for commodity lumber. We anticipate any pricing response will be moderated by higher than normal inventories and additional supply, as idled commodity lumber capacity returns. We will continue to monitor prices and make adjustments in our operating plans accordingly.

Improved weather conditions will also create opportunities for our Western Red Cedar products. We anticipate prices to remain stable for WRC timbers and wide-width products. The narrow-width WRC lumber market is expected to remain weak due to competition from low-price, imported lumber and an abundant supply of narrow-width US domestic cedar lumber. We will continue to focus on managing our product mix to mitigate the pricing impacts.

In Japan, we anticipate demand will be relatively stable ahead of the proposed increase in the Japanese consumption tax. We expect Hemlock pricing to remain under pressure from subsidized Japanese domestic product substitution, while pricing for our Douglas fir products may be slightly weaker.

We expect to grow both volumes and price realizations for our Niche products, as we continue to refine the product offerings from our Duke Point sawmill. We intend to leverage the planer rebuild and auto-grader installation to improve recovery and lower costs.

We expect domestic saw log prices to decline in response to weaker lumber markets. Price declines may be mitigated by low saw log supply as coastal log production may decline due to stumpage rates that have become disconnected from the lumber market.

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 2019, we completed the acquisition of Columbia Vista Corporation in Vancouver, Washington and invested \$3.8 million to substantially complete Arlington infrastructure and equipment upgrades. Commissioning has started and we expect to begin secondary processing at Arlington early in the second quarter. In BC, we took delivery of the first ten forklifts as we begin implementation of our centralized fleet management program, and progressed on a number of small, high-return capital projects focused on debottlenecking our manufacturing operations.

Softwood Lumber Dispute and US Market Update

Western's results for the first quarter of 2019 include \$9.2 million of export duty expense, comprised of CVD and AD expense. At March 31, 2019, Western had \$71.4 million of cash on deposit with the US Department of Treasury in respect of these softwood lumber duties.

On April 9, 2019, a World Trade Organization ("WTO") Panel ruled on certain matters relating to the application of softwood lumber anti-dumping duties, concluding that the US violated international trade rules in the way it calculated anti-dumping duties. Included in the ruling, the WTO Panel has allowed the US to use "zeroing" in its calculation of AD, which Canada will appeal. The practice of zeroing had previously been disallowed by the WTO with regard to softwood lumber. The final determination of AD is subject to additional appeals from both the US and Canada.

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, particularly Western Red Cedar and Yellow 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 are predominantly high-value, appearance grade lumber, we are disproportionately impacted by these duties. We have filed a Chapter 19 North American Free Trade Agreement ("NAFTA") separate-like-product challenge, on which a ruling is not expected until late 2019.

US market sales represent less than 25% of Western's total revenue in 2018. Continued strong demand and a lack of supply has supported improvements in our specialty lumber product pricing, partly offsetting the impact of duties.

Our acquisition of a distribution and processing centre in Arlington, Washington and the assets of Columbia Vista Corporation in Vancouver, Washington are expected to partially mitigate the damaging effects of duties on our products destined for the US market while increasing US market sales. We intend to leverage our flexible operating platform to continue to overcome any challenges that arise from this trade dispute.

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 “will”, “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, 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 within which the Company currently operates, 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 affecting the forest industry, changes in opportunities and other factors referenced under the “Risks and Uncertainties” section of our MD&A in our 2018 Annual Report dated February 12, 2019. 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 year ended December 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 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 forest products company building a margin-focused log and lumber business to compete successfully in global softwood markets. With operations and employees located primarily on the coast of British Columbia and Washington State, Western is a premier supplier of high-value, specialty forest products to worldwide markets. Western has a lumber capacity in excess of 1.1 billion board feet from eight sawmills and four remanufacturing facilities. The Company sources timber from its private lands, long-term licenses, First Nations arrangements, and market purchases. Western supplements its production through a wholesale program providing customers with a comprehensive range of specialty products.

TELECONFERENCE CALL NOTIFICATION:

Thursday, May 2, 2019 at 12:00 p.m. PST (3:00 p.m. EST)

On Thursday, May 2, 2019, 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 416-406-0743 or 1-800-806-5484 (passcode: 6931937#). This call will be taped, available one hour after the teleconference, and on replay until May 12, 2019 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: 8184058#).

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