



**Western Forest Products Inc.**  
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TSX: WEF

**Western Announces Fourth Quarter 2019 Results**

**February 11, 2020 – Vancouver, British Columbia** – Western Forest Products Inc. (TSX: WEF) (“Western” or the “Company”) reported negative adjusted EBITDA of \$18.1 million in the fourth quarter of 2019. Results were impacted by strike action by the United Steelworkers Local 1-1937 (“USW”) and weak markets. The Company continued to service customers and partly mitigated losses arising from labour disruptions at all of its timberlands and the majority of its British Columbia (“BC”) based manufacturing operations by selling available inventory, increasing its wholesale lumber program and deferring certain expenditures.

Net loss of \$29.2 million (\$0.09 net loss per diluted share) was reported for the fourth quarter of 2019, as compared to net income of \$5.3 million (\$0.02 net income per diluted share) for the fourth quarter of 2018 and net loss of \$18.7 million (\$0.05 net loss per diluted share) in the third quarter of 2019.

Western’s negative adjusted EBITDA of \$18.1 million in the fourth quarter of 2019 compared to adjusted EBITDA of \$18.0 million in the fourth quarter of 2018, and negative \$16.6 million reported in the third quarter of 2019. Operating loss prior to restructuring and other items was \$29.6 million in the fourth quarter of 2019, compared to operating income prior to restructuring and other items of \$7.7 million in fourth quarter of 2018, and \$24.2 million loss reported in the third quarter of 2019. Western’s liquidity at the end of the fourth quarter of 2019 was \$136.9 million and net debt to capitalization ratio was approximately 18.8%.

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

	Q4 2019	Q4 2018	Q3 2019	Annual 2019	Annual 2018
Total revenue	\$ 80.1	\$ 284.8	\$ 141.6	\$ 807.7	\$ 1,196.7
Export tax	3.4	10.1	5.5	27.8	43.0
Stumpage	-	13.8	-	26.0	52.7
Adjusted EBITDA	(18.1)	18.0	(16.6)	(1.5)	143.5
Adjusted EBITDA margin	-22.6%	6.3%	-11.7%	-0.2%	12.0%
Operating income prior to restructuring items and other income (expense)	\$ (29.6)	\$ 7.7	\$ (24.2)	\$ (46.7)	\$ 103.4
Net income (loss)	(29.2)	5.3	(18.7)	(46.7)	69.2
Basic and diluted earnings per share (in dollars)	(0.09)	0.02	(0.05)	(0.12)	0.18
Net debt (cash) - end of period	111.3	(2.4)	106.9		
Total liquidity - end of period	136.9	250.4	141.3		

“In the fourth quarter, we continued to focus on limiting the impact of the USW strike on our customers and our financial position by managing our debt levels,” said Don Demens, President and Chief Executive Officer. “With terms of a tentative collective agreement reached with the USW, we look forward to bringing people back to work following the completion of the ratification process.”

The Company generated revenue of \$80.1 million in the fourth quarter of 2019, as compared to \$284.8 million in the fourth quarter of 2018, and \$141.6 million in the third quarter of 2019. The Company partially mitigated the impacts of the strike by selling unencumbered lumber and log inventories during the fourth quarter of 2019.

For the year ended December 31, 2019, Western generated annual revenue of \$807.7 million, as compared to annual revenue of \$1,196.7 million in 2018. Western reported negative adjusted EBITDA of \$1.5 million as compared to \$143.5 million in 2018.

## Summary of Fourth Quarter 2019 Results

Fourth quarter results were significantly impacted by the Strike, as all of our timberlands and most of our BC based manufacturing operations were curtailed. We took steps to mitigate the Strike's impact on our customers, business and cash flows by selling the majority of our remaining unencumbered lumber inventory, processing certain unencumbered logs at custom cut facilities, drawing down working capital, and deferring certain expenditures.

Adjusted EBITDA for the fourth quarter of 2019 was negative \$18.1 million, as compared to positive EBITDA of \$18.0 million from the same period last year. Operating loss prior to restructuring and other items was \$29.6 million, as compared to operating income of \$7.7 million in the same period last year.

### *Sales*

Lumber and log sales volume and revenue were impacted by the Strike. Lumber revenue in the fourth quarter was \$66.1 million, a decrease of 71.4% from the same period last year. Lumber shipment volumes were 80.3% lower than the same period last year due to the Strike, as most of our manufacturing operations were shutdown in the fourth quarter of 2019. We sold the majority of our remaining unencumbered lumber inventory, processed certain unencumbered logs at custom cut facilities, and continued to execute on our wholesale lumber program to service our customers and help mitigate the impact of the Strike. Our United States ("US") based Columbia Vista division continued to perform in line with our expectations and has been a positive addition to our business and product mix.

Our average realized lumber pricing increased 45.1% as the result of an improved specialty product mix, which was partially offset by a stronger Canadian dollar ("CAD") to United States dollar ("USD"). Specialty lumber represented 79.1% of fourth quarter shipments compared to 49.5% in the same period last year, as we leveraged our wholesale lumber business and custom cut production to supply our customers.

Log revenue was \$12.1 million in the fourth quarter of 2019, a decrease of 66.6% from the same period last year. To mitigate the impact of the Strike on our business, we sold certain unencumbered log inventory to help manage cash flow and reduce working capital levels.

By-product revenue was \$1.9 million, a decrease of 89.3% as compared to the same period last year as most of our BC coastal operations were shut down due to the Strike.

### *Operations*

To support our selected customers during the Strike, we continued to redirect available inventory to active divisions. We operated on a sub-optimal basis resulting in higher transportation and operating costs. Operating expenses included \$16.7 million arising from curtailed operations and related operating inefficiencies as a result of the Strike.

Leading up to the Strike, we drew down inventory at USW-certified operations to supply our remanufacturing and custom cut operations. However, as certain inventory was encumbered by the Strike and degraded over the fourth quarter of 2019, we expensed an additional \$2.4 million provision against this restricted inventory.

Lumber production of 34 million board feet was 83.0% lower than the same period last year. Incremental production from our US-based Columbia Vista division, acquired in 2019, and volumes from our custom cut program was more than offset by the curtailment of our BC operations due to the Strike.

We produced 21,000 cubic meters of logs from our BC coastal operations in the fourth quarter of 2019 compared to production of 1,135,000 cubic metres in the same quarter of last year. Fourth quarter log production in 2019 was sourced from joint ventures and limited partnerships, as all our USW certified timberlands operations were curtailed due to the Strike.

BC coastal saw log purchases were 34,000 cubic metres, an 84.0% decrease from the same period last year. Weaker markets and government policy decisions led to a significant decline in coastal log harvest that reduced market log availability. We sourced our saw log purchases from pre-existing purchase commitments and our joint venture arrangements.

Freight expense decreased by \$19.3 million from the same period last year due to lower shipment volumes.

Fourth quarter adjusted EBITDA and operating income included \$3.4 million of countervailing duty (“CVD”) and anti-dumping duty (“AD”), as compared to \$10.1 million in the same period last year. Duty expense declined as a result of reduced US-destined lumber shipment volumes.

#### *Selling and Administration Expense*

Fourth quarter selling and administration expense was \$8.0 million in 2019 as compared to \$7.6 million in the same period last year. Incremental legal expenses relating to the Strike more than offset cost mitigation savings.

#### *Finance Costs*

Finance costs were \$2.2 million, compared to \$0.7 million in the same period last year. This was primarily due to a higher average outstanding debt balance and higher average interest rates in 2019. As at December 31, 2019, the Company had drawn \$114.1 million on its credit facility.

#### *Net Income (Loss)*

Net loss for the fourth quarter of 2019 was \$29.2 million, as compared to net income of \$5.3 million for the same period of 2018. Results were significantly impacted by the Strike.

### **Summary of 2019 Annual Results**

Adjusted EBITDA for the year was negative \$1.5 million, as compared to positive \$143.5 million from the same period last year. Operating loss prior to restructuring and other items was \$46.7 million, compared to operating income of \$103.4 million during the same period last year.

#### *Sales*

Lumber revenue was \$628.3 million, a decrease of 34.1% from the same period last year, primarily due to the Strike and more challenging market conditions. Despite the decline in market pricing, our average lumber price realizations increased, benefitting from a higher specialty product mix and a weaker CAD to USD. Specialty lumber represented 58.3% of 2019 annual shipments, compared to 49.9% last year. Despite a more challenging year, we were successful in more than doubling our wholesale lumber volume to service our customers and help mitigate the impact of the Strike.

Log revenue was \$144.0 million, a decrease of 10.0% compared to the same period last year. Log revenue benefited from the resumption of our export log sales program in the second quarter of 2019 but was offset by the impact of the Strike in the third and fourth quarters of 2019.

By-products revenue decreased to \$35.4 million, from \$83.8 million last year, primarily due to lower production and shipments as a result of the Strike. Other factors included declining BC coastal chip prices and lower chip purchase-and-resale volume.

#### *Operations*

Lumber production of 491 million board feet was 43.2% lower than the same period last year. Market-related sawmill curtailments and the Strike led to lower production, which more than offset the inclusion of results from our US-based Columbia Vista division.

Log production was 2,214,000 cubic metres, 48.8% lower than the same period last year, primarily due to the Strike in the second half of 2019.

BC coastal saw log purchases were 564,000 cubic metres, a 42.4% decrease from the same period last year, as we managed log purchases to available capacity to support customer needs.

Freight expense decreased by \$26.5 million as compared to last year, primarily due to lower shipment volumes as a result of the Strike.

Adjusted EBITDA and operating income included \$27.8 million of CVD and AD expense, as compared to \$43.0 million in 2018. Duty expense declined as a result of reduced US-destined lumber shipment volumes due to the Strike.

### *Selling and Administration Expense*

Selling and administration expense was \$31.1 million, as compared to \$32.0 million during the same period last year. We took steps to reduce and manage expenses in order to mitigate increased legal expense and operating losses resulting from the Strike.

### *Finance Costs*

Finance costs were \$7.8 million, compared to \$2.7 million in 2018, primarily due to comparatively higher average outstanding debt and higher average interest rate in 2019.

As a result of adopting IFRS 16, *Leases* on January 1, 2019, we recognized \$0.8 million of finance costs on lease payments in 2019. In comparative periods, leasing finance costs were recognized in operating income.

### *Net Income (Loss)*

Net loss for 2019 was \$46.7 million, as compared to net income of \$69.2 million last year. Net income for the year was lower due to the Strike, which largely curtailed operations in the second half of 2019.

### *Columbia Vista Asset Acquisition*

On February 1, 2019, we completed the asset acquisition of Vancouver, Washington based Columbia Vista Corporation and related entities. 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 Huumiis Ventures Limited Partnership (a limited partnership beneficially owned by the Huu-ay-aht First Nations) ("HVLP") for gross proceeds of \$7.3 million. As part of the agreement, HVLP may acquire an additional interest in the TFL 44 LP, which may include a majority interest, subject to further negotiations. 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.

### *Arlington Operation*

During 2019, we completed infrastructure and equipment upgrades and commenced secondary processing. However, the expected ramp up of production at the facility has been partially impacted by the Strike and a lack of wholesale lumber supply due to market conditions. Our Arlington facility is currently operating on a reduced basis due to a lack of lumber supply resulting from the Strike.

## **Operating Restructuring Items**

We incurred \$3.5 million of operating restructuring costs in 2019, including \$1.4 million of non-operating costs incurred due to the indefinite curtailment of the Company's Somass sawmill in 2017. During the fourth quarter of 2019, we incurred \$2.1 million in severance and related expenses due to a reduction of approximately 10% in salaried employees as a cost mitigation initiative to limit losses arising from the Strike.

Operating restructuring costs were \$4.8 million in 2018, due primarily to the indefinite curtailment of our Somass sawmill, business optimization initiatives and closure of the Englewood train.

## **Income Taxes**

Lower operating earnings led to an income tax recovery of \$16.7 million being recognized in 2019, as compared to income tax expense of \$25.6 million in 2018.

At December 31, 2019, the Company and its subsidiaries had unused non-capital loss carry forwards totalling approximately \$24.1 million in Canada, and \$5.2 million in the US, which can be used to reduce taxable income. In addition, the Company has unused capital losses carried forward of approximately \$87.9 million in Canada, which are available indefinitely.

## **Labour Relations Update**

Western began negotiations with the USW, the union representing approximately 1,500 of our hourly employees and 1,500 employees working for our timberland contractors in BC, in April 2019 for a new collective agreement to replace our prior agreement, which expired mid-June 2019.

The USW served seventy-two hours' notice of strike action on the Company and some of its contractors on June 28, 2019. On July 1, 2019, the USW commenced a strike. The Strike is ongoing for all of our USW certified manufacturing and timberlands operations. The Strike is also indirectly impacting certain non-USW certified manufacturing operations, including our Ladysmith sawmill (due to insufficient log supply) and our Value-Added remanufacturing facility (due to a lack of lumber supply). Our US based Arlington and Columbia Vista divisions continue to operate, although our Arlington facility is operating on a reduced basis due to a lack of lumber supply caused by the Strike.

Upon receiving strike notice from the USW, we commenced our work stoppage contingency plan with a goal to protect our balance sheet while mitigating the impact of the Strike on our Company, customers and business partners.

On September 13, 2019, the Company and the USW commenced mediation with independent mediators Vince Ready and Amanda Rodgers; however, the USW withdrew from mediation with the Company and independent mediators after several hours of talks. The Company and USW subsequently met with the independent mediators on several occasions to resume talks, but on December 17, 2019, negotiations reached an impasse.

On February 6, 2020, the BC Minister of Labour appointed Vince Ready and Amanda Rogers as Special Mediators to work with the Company and USW for a period of 10 days to determine if a negotiated settlement could be reached. On February 10, 2020, the Company announced that terms of a tentative collective agreement had been reached. The tentative agreement is subject to a ratification vote by USW membership. The USW bargaining committee has advised that they will be recommending its members accept the agreement. The USW has advised its members that the ratification voting will occur shortly.

Despite terms of a tentative collective agreement being reached, the Strike is expected to have a negative impact on our first quarter results in 2020 compared to the same period last year, but we are unable to determine the magnitude of that impact at this time.

## **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 regulatory framework. On January 17, 2019, the Premier announced the Province's commitment to make changes to BC's log export policies and rules, Bill 13 and waste policies with the intent to increase domestic and value-added manufacturing in BC.

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. Western estimates that approximately 70% of our timberland operations will be impacted with the creation of fibre recovery zones. The impacts to our business include the potential for higher costs and lower log harvest volumes. The Province has been clear that they do not want to see unintended consequences from the policy implementation. We continue to collaboratively engage with the Province and other stakeholders 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.

On April 11, 2019, the Province announced Bill 22, *Forest Amendment Act, 2019*, which came into force on May 30, 2019. The amendments to the *Forest Act* will require tenure holders to receive approval from the Minister before disposing or transferring a tenure agreement to a third party. These amendments will enable the Minister to refuse to approve, or place conditions on the approval of, 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.

On May 16, 2019, 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 was put into force.

On July 10, 2019, the Province announced the application of a targeted fee-in-lieu of manufacturing for exported logs harvested from BC Timber Sales, as a step towards ensuring that more logs are processed in BC.

On July 17, 2019, the Province announced that a two-person panel had been appointed to lead an Old Growth Strategic Review and provide a report to the Minister of Forests, Lands, Natural Resource Operations and Rural Development (the "MFLNRORD"). The panel will report back to government in spring 2020 with recommendations that are expected to inform a new approach to old-growth management for BC.

On November 28, 2019, Bill 41, Declaration on the Rights of Indigenous Peoples Act (the "Act") came into force. The Act is intended to guide the implementation of the principles of the United Nations Declaration on the Rights of Indigenous Peoples ("UNDRIP") and makes BC the first province in Canada to legally implement UNDRIP. The Act requires the Province to align all laws with UNDRIP, to develop an action plan to achieve this, and regularly report to the legislature to monitor progress. The current Federal Government has also pledged to implement UNDRIP and the Calls to Action of the Truth and Reconciliation Commission. Significant expectation has been raised among Aboriginal groups in BC and across the country as to the impact that this Act and the Federal Government's commitments may have on efforts to achieve true reconciliation with Aboriginal groups. At this time, the Company is unable to predict the outcome of the Act and the implementation of these commitments on Western's ongoing operations or on any sale of its non-core assets and private lands.

In December 2019, the MFLNRORD, indicated that there would be a delay in expanding the fee-in-lieu payment for raw log exports to all cutting permits on the BC coast by six months and that the Province would be shrinking the penalties and zones for fibre recovery zones. Specific details of these policy changes have not been disclosed.

On January 21, 2020, the Province announced changes to the Manufactured Forest Products Regulation effective July 1, 2020 to ensure more accessibility to fibre for local manufacturers. The regulation amendments require lumber that is made from Western Red Cedar ("WRC") or cypress (yellow cedar) to be fully manufactured to be eligible for export. Fully manufactured is defined as lumber that will not be kiln-dried, planed or re-sawn at a facility outside of BC.

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

Separately, on December 20, 2019, the Company was notified by the MFLNRORD that an alternative method of scale would apply for all the Company's timber that was cut prior to July 1, 2019 and had not been scaled. The Company is required to compile and submit a report of all the timber to MFLNRORD, which will result in stumpage expense becoming payable shortly thereafter. The Company has requested clarification from MFLNRORD and cannot determine the financial impact at this time. We have not accrued for any incremental stumpage expense that may become payable under this alternative scaling method as at December 31, 2019.

## **Sawmill and Remanufacturing Curtailments**

Due to market conditions in 2019, our Cowichan Bay sawmill was temporarily curtailed for a two-week period beginning March 25, 2019, and our Alberni Pacific sawmill was temporarily curtailed for a four-week period beginning March 18, 2019. Our Ladysmith sawmill was temporary curtailed for a two-week period beginning May 6, 2019, due to constrained log supply.

On June 6, 2019, we announced temporary production curtailments at three of our sawmills to align production volumes to customer demand. We curtailed our Duke Point sawmill for two weeks and our Saltair sawmill for one week in June. We reduced operating levels at our Chemainus sawmill from 120 hours per week to 80 hours per week.

On July 24, 2019, we announced an additional temporary curtailment at our Ladysmith sawmill due to illegal strike action taken by the USW, which impeded log supply to the mill. Subsequent to this announcement, the Labour Relations Board confirmed their earlier ruling that the USW tactics were illegal and ordered the USW to refrain from impeding log delivery to the mill. The Ladysmith sawmill continued to operate until it was curtailed on August 23, 2019, due to limited log supply.

On September 6, 2019, our BC Value-Added remanufacturing facility was curtailed in response to limited lumber supply as a result of the Strike. The facility restarted during the fourth quarter of 2019, but its operations were limited.

Due to limited lumber volumes from our suppliers our Arlington remanufacturing facility in Washington State operated sporadically in the second half of 2019.

## **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.

Continuing to guide our actions are the strategic initiatives presented below, with selected accomplishments:

### ***Strengthen the Foundation***

- Through our focused capital investments, we have positioned Western as the only company on the coast of BC capable of consuming the complete profile of the coastal forest and competitively manufacturing a diverse product mix.
- Our strategic capital investments have allowed us to increase the production of targeted products and supported the optimization of our coastal operations.
- We have invested in our people and systems to create a platform for pursuing margin-focused growth opportunities.
- We continue to pursue long-term relationships with coastal First Nations to create mutually beneficial opportunities. In 2019, we completed the sale of an ownership interest in our Port Alberni Forest Operation to HVLP, aligning our interests and introducing an opportunity to potentially involve other First Nations in a shared vision for forestry.

### ***Grow the Base***

- We optimized our operations and invested in our sawmills and timberlands to improve margins and position ourselves for growth. We continue to look for opportunities to further optimize our operations to enhance profit margins.
- We implemented multiple non-capital margin improvement programs to improve our cost structure and optimize our supply chain.
- The success of our business relationships with First Nations has and continues to drive incremental log volume and enabled Western to grow specialty lumber production in recent years.
- We are executing on our sales and marketing strategy, driving the production and sale of targeted, high-margin products of scale to selected customers that value our product offerings.

### ***Explore Opportunities***

- In 2018, we acquired our Arlington distribution and processing facility. The facility allows the Company to increase the production of targeted, finished products while also providing a centralized warehousing and distribution centre to more effectively service our selected US customers.
- In 2019, we acquired the assets of Columbia Vista in Vancouver, Washington, enabling us to offer a broader array of Douglas fir specialty products to our selected customers in both the US and Japan.
- We launched a new wholesale business which will provide complementary products to our industry leading specialty product offerings and enhance our return on capital employed.
- We continue to evaluate opportunities to grow our business and long-term shareholder value.

### ***Sales & Marketing Strategy Update***

We continue to progress with the execution of our sales and marketing strategy, which 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 division continues to perform in line with our expectations and has been a positive addition to our business and product mix. During 2019 we continued to develop and evaluate growth opportunities for our wholesale lumber business, including more than doubling our shipments to 34 million board feet.

### ***Market Outlook***

Our long-term view of market fundamentals remains unchanged. In North America, rising lumber consumption will be driven by increased new home construction, a robust repair and renovation sector and growth of mass timber building technologies. Growing demand and reduced supply due to North American sawmill curtailments is expected to improve market fundamentals and benefit the industry long-term.

Despite positive long-term growth drivers, lumber markets were challenged in 2019 as North American weather events, skilled labour constraints and higher mortgage rates stalled US new home construction and muted growth in repair and renovation spending. In response to weak demand, temporary and permanent production curtailments were announced in the forestry sector. The supply impacts of these announcements are expected to support lumber pricing in 2020.

We are encouraged by the positive market sentiment regarding WRC products heading into the spring building season. Low in-market inventories and recent BC coastal cedar manufacturing closures should benefit WRC product pricing going forward.

In Japan, we expect steady demand for our Douglas fir products, however increased competition from European engineered wood products may pressure pricing. We expect market share erosion and weaker pricing for BC coastal Hemlock lumber in Japan due to the supply shortages as a result of the Strike and increased competition from Japanese Government subsidized domestic species. The Strike has resulted in certain Japanese Hemlock lumber customers switching to competing products. We plan to leverage Columbia Vista's strong and loyal Douglas fir customer base, as well as develop marketing strategies, to help regain our Japanese Hemlock lumber market share.

We anticipate demand for appearance Niche products to improve, resulting in modest price gains. In addition, we expect steady demand in North America for timbers and industrial products due to large scale industrial oil and gas projects currently underway in Canada.

Commodity lumber markets in North America are likely to benefit from previously announced temporary and permanent production curtailments, but we expect any pricing gains to be modest. The Chinese log market continues to be influenced by increased supply of lower priced, beetle impacted logs from Europe. We expect the log market in China to remain competitive over the near term. In the short term, the coronavirus could result in a temporary slow down of log and lumber imports to China. However, a government commitment to housing and continued positive economic growth should support long-term demand for logs and lumber in China.



We expect domestic saw log prices to increase in response to reduced log availability and improving lumber markets. Log supply on the BC coast is expected to remain constrained, as recent government initiatives that have increased harvest costs are expected to challenge harvest economics.

We expect modest improvements in pulp log and chip pricing in 2020 due to limited supply.

### *Strategic Capital Program*

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.

Given the challenging operating environment on the BC coast, in part due to the uncertainty around BC government policies, we have scaled back our capital investment plans. Until there is an improved operating environment or greater clarity on the impact of BC government policies, the Company has reduced strategic capital investment in BC.

We will continue to evaluate opportunities to invest strategic capital in jurisdictions that create opportunity to grow long-term shareholder value.

### *Softwood Lumber Dispute and US Market Update*

The US application of duties continues a long-standing pattern of US protectionist action against Canadian lumber producers. We disagree with the inclusion of specialty lumber products, particularly WRC 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.

Western expensed \$27.8 million of export duties in 2019, comprised of CVD and AD at a combined rate of 20.23% on all lumber it sold into the US. On February 3, 2020, the US Department of Commerce (“DoC”) issued preliminary revised rates in the CVD and AD first administrative review of shipments for the years ended December 31, 2017 and 2018. The combined preliminary revised rates were 8.37% for 2017 and 8.21% for 2018. The DoC may revise these rates between preliminary and the final determination expected in August 2020. Cash deposits continue at the current rate of 20.23% until the final determinations are published, at which time the 2018 rate will apply to US-destined lumber sales.

At December 31, 2019, Western had \$90.9 million of cash on deposit with the US Department of Treasury in respect of these softwood lumber duties.

Including wholesale lumber shipments, our sales to the US market represent approximately 27% of our total revenue in 2019. 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.

## **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, the USW labour dispute and the impact of the dispute, the regulatory framework, future costs, available harvest levels, capital allocation 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, the Company’s ability to export its products, competition and selling prices, international trade disputes, changes in foreign currency exchange rates, labour disputes and disruptions, natural disasters, relations with First Nations groups, First Nation’s claims and settlements, changes in laws, the availability of annual allowable cut and fibre, 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 2019 Annual Report dated February 11, 2020. 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, 2019, which is available under the Company’s profile on SEDAR at [www.sedar.com](http://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:**

### **Wednesday, February 12, 2020 at 9:00 a.m. PST (12:00 p.m. EST)**

On Wednesday February 12, 2020, Western Forest Products Inc. will host a teleconference call at 9:00 a.m. PST (12:00 p.m. EST). To participate in the teleconference please dial 416-340-2217 or 1-800-898-3989 (passcode: 2140217#). This call will be taped, available one hour after the teleconference, and on replay until March 12, 2020 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: 2076658#).

### **Contacts:**

For further information, please contact:  
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