



Western Forest Products Inc.
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TSX: WEF

Western Announces Fourth Quarter 2020 Results

February 18, 2021 – Vancouver, British Columbia – Western Forest Products Inc. (TSX: WEF) (“Western” or the “Company”) reported adjusted EBITDA of \$71.1 million in the fourth quarter of 2020. Western capitalized on strong North American lumber markets by growing Western Red Cedar (“WRC”) shipments, and by redirecting commodity production from weaker export markets into the speciality treated lumber segment.

Net income in the fourth quarter of 2020 was \$34.4 million (\$0.09 net income per diluted share), as compared to a net loss of \$29.2 million (\$0.09 net loss per diluted share) for the fourth quarter of 2019 and net income of \$11.5 million (\$0.03 net income per diluted share) in the third quarter of 2020.

Fourth Quarter Highlights:

- Strong fourth quarter EBITDA
- Leveraged flexible operating platform to grow lumber production and shipments into North America
- Further advanced our sales and marketing growth initiatives
- Reduced debt by \$50.2 million, bringing net debt down to \$69.2 million at the end of 2020
- Available liquidity of \$178.3 million to support growth and our balanced approach to capital allocation

Western’s fourth quarter adjusted EBITDA was \$71.1 million, as compared to negative adjusted EBITDA of \$18.1 million in the fourth quarter of 2019, and adjusted EBITDA of \$33.7 million reported in the third quarter of 2020. Operating income prior to restructuring and other items was \$56.0 million, compared to a loss of \$29.6 million in the fourth quarter of 2019, and \$19.0 million of income reported in the third quarter of 2020. Fourth quarter financial results benefited from a non-cash export tax recovery of \$31.6 million arising from the finalization of 2017 and 2018 export tax rates.

<i>(millions of dollars except per share amounts and where otherwise noted)</i>	Q4 2020	Q4 2019	Q3 2020	Annual 2020	Annual 2019
Revenue	\$ 318.9	\$ 80.1	\$ 290.6	\$ 964.9	\$ 807.7
Export tax expense	12.1	3.4	11.0	34.6	27.8
Export tax recovery	(31.6)	-	-	(31.6)	-
Adjusted EBITDA	71.1	(18.1)	33.7	116.8	(1.5)
Adjusted EBITDA margin	22%	-23%	12%	12%	0%
Operating income prior to restructuring items and other income (expense)	\$ 56.0	\$ (29.6)	\$ 19.0	\$ 61.2	\$ (46.7)
Net income (loss)	34.4	(29.2)	11.5	33.4	(46.7)
Basic and diluted earnings (loss) per share (in dollars)	0.09	(0.09)	0.03	0.09	(0.12)
Net debt, end of period	69.2	111.3	119.4		
Liquidity, end of period	178.3	136.9	127.9		

“We capitalized on strong North American lumber markets in the fourth quarter to deliver significantly improved financial results,” said Don Demens, President and Chief Executive Officer. “I look forward to capitalizing on the successful repositioning of our balance sheet and the rising demand for sustainable, speciality lumber products.”

For the year ended December 31, 2020, Western delivered adjusted EBITDA of \$116.8 million compared to negative adjusted EBITDA of \$1.5 million in 2019. Western reported net income of \$61.2 million in 2020, as compared to a net loss of \$46.7 million in the prior year.

Summary of Fourth Quarter 2020 Results

Adjusted EBITDA for the fourth quarter of 2020 was \$71.1 million, as compared to negative adjusted EBITDA of \$18.1 million during the same period last year. The recovery of export tax attributable to the final determination of 2017 and 2018 United States (“US”) imposed export tax rates accounted for \$31.6 million of adjusted EBITDA. We grew fourth quarter adjusted EBITDA, despite volatility in North American commodity markets, by increasing lumber shipments, redirecting certain commodity volumes to a strong North American treating segment, and by recognizing a non-cash recovery of export tax.

Operating income prior to restructuring and other items was \$56.0 million, as compared to operating loss prior to restructuring and other items of \$29.6 million in the same period last year. Comparative results were significantly impacted by the Strike, which curtailed all of our timberlands and most of our British Columbia (“BC”) based manufacturing operations from July 2019 through February 2020.

Sales

In the fourth quarter unseasonably strong demand and constrained supply supported pricing for our North American product lines, while prices in our export markets remained relatively weak. North American lumber pricing was volatile through the quarter as inventory in the distribution channel could not supply demand that was stronger than anticipated. Domestic log markets continued to improve in the fourth quarter supported by the strength of lumber markets and constrained supply. Pulp log markets remained muted while prices for export logs into China improved marginally.

We took advantage of strong North American lumber markets by maintaining Western Red Cedar volumes during a traditionally slower period and by redirecting production and sales from weaker export markets. We grew lumber revenue by 23% from the third quarter of 2020, on the strength of higher prices for our Western Red Cedar products, and increased sales volumes and prices in our commodity lumber segment. Lumber revenue was \$256.6 million, as compared to \$66.1 million in the Strike affected fourth quarter of 2019, and \$208.6 million in the third quarter of 2020. We grew lumber shipments by 24% from the third quarter of 2020, led by a 60% increase in commodity lumber shipments which were mostly directed to the specialty treated lumber sector.

Specialty lumber represented 48% of fourth quarter shipments in 2020 compared to 80% in the same period last year and 59% in the third quarter of 2020. A greater commodity weighting to our lumber sales mix and stronger Canadian dollar (“CAD”) to United States dollar (“USD”) reduced our average realized lumber price from the comparative periods, while benchmark pricing for the majority of our products continued to rise.

Log revenue was \$53.4 million, as compared to \$12.1 million in the Strike affected fourth quarter of 2019, and \$73.7 million in the third quarter of 2020. We achieved a higher average realized log price than the comparative periods despite a weaker sales mix and lower export market pricing. We directed the majority of our export log inventory to our sawmills to capitalize on the strong North American lumber market. Limited export log shipments originated primarily from commitments under First Nation partnership and joint venture arrangements.

By-product revenue was \$8.9 million, as compared to \$1.9 million in the Strike affected fourth quarter of 2019, and \$8.3 million in the third quarter of 2020. By-product revenue increased from the third quarter of 2020 as a result of moderately improved chip pricing and higher by-product shipments.

Operations

Lumber production was 180 million board feet, as compared to 34 million board feet in the Strike affected fourth quarter of 2019, and 192 million board feet in the third quarter of 2020. Production decreased by 6% from the third quarter of 2020 as we balanced lumber production with remanufacturing capacity. We have continued to lever our flexible operating platform by redirecting production from relatively weak export markets into the strong North American market.

We reduced operating hours at our Duke Point sawmill by 10% and temporarily curtailed our Cowichan Bay sawmill operations for two weeks to balance production to secondary processing capacity. Our Port Alberni sawmill was curtailed for two weeks due to unplanned maintenance. We have resumed operations at Cowichan Bay and Port Alberni, while Duke Point continues to run on an adjusted two-shift basis. In early February 2021, we added a second shift at our Ladysmith sawmill as lumber markets in China began to improve.

We produced 901,000 cubic metres of logs from our BC coastal operations in the fourth quarter of 2020, as compared to 21,000 cubic metres in the same quarter of last year and 1,138,000 cubic metres in the third quarter of 2020. Harvest volumes were reduced due to typical seasonal operating conditions.

BC coastal saw log purchases were 222,000 cubic metres, as compared to 34,000 cubic metres in the same period last year. Although market log supply has been limited, we have been successful in growing log purchase volumes to support our mills.

Freight expense was \$24.9 million, as compared to \$5.1 million in the Strike affected fourth quarter of 2019 and \$22.4 million in the third quarter of 2020. An increase in container shipping rates and greater lumber shipment volumes drove an increase in freight expense over the comparative periods.

Fourth quarter adjusted EBITDA and operating income included \$12.1 million of US-imposed countervailing duty (“CVD”) and anti-dumping duty (“AD”) expense, as compared to \$3.4 million in the same period last year and \$11.0 million in the third quarter of 2020. Duty expense rose as a result of increased US-destined lumber shipment volumes, which offset the benefit of the December 1, 2020 reduction in applicable combined duty rate from 20.23% to 8.99%. In addition, we recognized a \$31.6 million export duty tax recovery against export tax expense in relation to the US Department of Commerce’s (“DoC”) final determination on assessed rates applicable to 2017 and 2018.

Selling and Administration Expense

Fourth quarter selling and administration expense was \$11.9 million in 2020 as compared to \$8.0 million in the Strike affected fourth quarter of 2019. Improved financial performance drove an incremental \$1.5 million of incentive compensation expense, while appreciation of the Company’s share price led to a \$0.9 million increase in long-term compensation liabilities.

In addition to increased health and safety and IT costs associated with COVID-19 operating requirements, we expensed an incremental \$0.5 million of non-recurring strategic and governance consulting fees.

Finance Costs

Lower average outstanding debt balance and the recognition of interest income on duty receivable resulted in income from financing activities of \$0.5 million, as compared to finance costs of \$2.2 million in the same period last year. As at December 31, 2020, the Company had drawn \$70.2 million on its credit facility, significantly reduced from \$114.1 million drawn at December 31, 2019.

Other Expense

We recognized other expenses of \$6.4 million in the fourth quarter of 2020, including impairments of \$3.6 million on non-core lands and a \$2.0 million loss on asset dispositions partially offset by other income. In the same period of 2019, we recognized other expense of \$5.3 million, including \$2.8 million fair value reduction in private timberlands and multiple lesser non-recurring expenses related to asset acquisitions, dispositions and environmental remediation.

Net Income (Loss)

Net income for the fourth quarter was \$34.4 million, as compared to net loss of \$29.2 million for the same period of 2019. Net income improved as we increased shipments to strong North American markets by redirecting volumes from relatively weaker export markets, and recognized export tax recovery.

Summary of 2020 Annual Results

Financial and operating results were significantly impacted by COVID-19, the Strike, and the gradual restart of Strike-curtailed BC operations in the first half of 2020. Despite financial impacts and significant uncertainty arising from COVID-19, we maintained employment and operating levels with support from the Canadian Emergency Wage Subsidy (“CEWS”) program.

On February 15, 2020, USW members voted in support of a 5-year agreement to replace the collective agreement that expired on June 14, 2019, resulting in the end of the Strike. Following the Strike, we performed the necessary safety and maintenance procedures before commencing a gradual restart of certain Strike-curtailed BC operations. Upon restart, our manufacturing productivity was impacted by the consumption of lower quality log inventory that had degraded during the Strike.

In late March 2020, as a result of COVID-19, we curtailed certain of our BC operations for one week to implement enhanced health and safety protocols and to re-evaluate market conditions. We then resumed operations except at our Ladysmith and Cowichan Bay sawmills which remained curtailed due to a lack of log supply. Operations resumed at our Cowichan Bay and Ladysmith sawmills on May 4 and August 4, 2020, respectively. Our US-based Columbia Vista division operations were unaffected by the Strike and took no COVID-19 related downtime.

Adjusted EBITDA for 2020 was \$116.8 million, as compared to negative adjusted EBITDA of \$1.5 million from the prior year. Operating income prior to restructuring items and other items was \$61.2 million, as compared to an operating loss prior to restructuring items and other items of \$46.7 million in the prior year. We capitalized on improvements in North American lumber and log markets, beginning in June 2020, to overcome operating losses incurred earlier in the year. COVID-19 initially reduced demand for our products and caused some customers to defer order shipments. Demand for our products slowly recovered after governments started to lift their shutdowns and other restrictions. Demand slowly began to return in China early in the second quarter, followed by Europe and North America in the third quarter. Throughout the year we levered our flexible operating platform to transition production and shipments to higher margin North American markets.

Sales

Lumber revenue grew to \$737.2 million in 2020 from \$628.3 million the prior year. Lumber revenue was impacted by COVID-19 and the Strike, which limited our BC based sawmill production from the third quarter of 2019 through the first quarter of 2020. Government emergency measures instituted to combat COVID-19 significantly impacted demand for our products as many customers suspended order activity in late March 2020 through mid-May 2020. We took this time to rebuild inventory depleted by the Strike, which allowed us to increase shipments as lumber markets gradually recovered through the period.

Despite challenges at the beginning of the year, we successfully increased Western Red Cedar shipments and capitalized on strong North American lumber markets by redirecting volume from weaker export markets to achieve record average lumber price realizations.

Log revenue was \$200.5 million in 2020, an increase of 39% from the prior year when log production and sales were limited by the Strike. Log shipment volumes increased by 46%, led by a significant one-time increase in pulp log sales arising from degradation of logs encumbered from the Strike. A weaker log sales mix and the temporary impact of COVID-19 on log markets early in the year resulted in a 4% decline in average realized log prices.

By-products revenue decreased to \$27.2 million in 2020, from \$35.4 million in the prior year due to reduced chip purchase-and-resale volume, lower average annualized pricing, and temporary coastal pulp operating curtailments.

Operations

Despite significant uncertainty arising from COVID-19 through 2020, we maintained operating levels in order to support and maintain employment, rebuild inventories, and service our customers. By late May 2020, we had rebuilt log decks that were depleted from the Strike. Stable operating plans have driven improved productivity and enabled us to sustain shipments into strong lumber and log markets.

Lumber production in 2020 was 576 million board feet, 17% higher than last year. Lumber production was negatively impacted in the first half of 2020 by the Strike and COVID-19. We partly mitigated the impact of the Strike on our customers by continuing to process logs at custom cut facilities and through our wholesale lumber activity. Upon returning from the Strike, mid-year production volume and grade recovery were impacted due to processing log inventory that had degraded during the Strike. In the second half of 2020, we leveraged our flexible operating platform to increase the production of North American commodity lumber targeted to the treating segment.

After the resolution of the Strike in the first quarter of 2020, we resumed and maintained our timberlands operations through the remainder of 2020 despite significant uncertainty arising from COVID-19. By maintaining active timberlands operations, we rebuilt log inventories to support our sawmill operations. We resumed operations at our Cowichan Bay and Ladysmith sawmills in May and August 2020, respectively. To address increased remanufacturing capacity requirements for North American commodity production,

we restarted our idled Cowichan Bay planer operation and increased utilization across our other remanufacturing facilities.

Log production for 2020 was 3,430,000 cubic metres, an increase of 55% from 2019. We delivered higher production by capitalizing on favourable operating conditions. Lower production costs resulted from a favourable mix of operations and by aligning our road expenditures to harvest volumes. No significant fire-related downtime was taken in either year.

BC coastal saw log purchases were 835,000 cubic metres in 2020, a 48% increase from the prior year despite lower overall non-Western coastal harvest activity.

Freight expense was \$73.7 million in 2020, an increase of 15% due to significantly greater fourth quarter shipment volumes year-over-year and the geographic mix of sales.

Adjusted EBITDA and operating income included \$34.6 million of CVD and AD expense on sales in 2020, as compared to \$27.8 million in the same period of 2019. Increased export duty expense on sales was due to increased shipments of Western Red Cedar and commodity lumber to the US market. We recognized a \$31.6 million export duty tax recovery against export tax expense in the 2020, upon the DoC's final determination on assessed rates for fiscal years 2017 and 2018.

Due to the negative financial impact and risk to employment that COVID-19 had on our business we applied for CEWS to support continued operations despite uncertainty; maintain employment; offset costs of enhanced health and safety protocols; support contractors and communities; rebuild inventory and continue to service our customers. In the first half of 2020, before our operating income began to recover, we recognized CEWS of \$11.6 million as an offset to cost of goods sold, and \$1.4 million as an offset to selling and administration expense.

Selling and Administration Expense

Selling and administration expense for 2020 was \$36.7 million as compared to \$31.1 million in the prior year. Savings generated by cost containment measures were offset by expenses arising from COVID-19, including health and safety spending and incremental IT costs associated with remote work requirements.

Improved financial performance drove an incremental \$2.1 million of incentive compensation expense, while appreciation of the Company's share price led to an additional \$2.5 million long-term compensation expense. Non-cash amortization recognized in selling and administration expense increased by \$1.0 million primarily due to the replacement of certain foundational systems in 2019.

Despite uncertainty arising from COVID-19, we maintained staffing levels to support our business and communities, and to continue to service our customers.

Finance Costs

Finance costs were \$5.9 million in 2020 as compared to \$7.8 million in 2019. In 2020, we recognized \$2.2 million in interest income arising from export duty tax recovery that was not applicable to 2019, and this more than offset incremental interest expense from a higher average debt balance outstanding in 2020.

Other Expense

We recognized net other expenses of \$5.2 million in 2020, including impairments of \$3.6 million on non-core lands and a \$0.2 million loss on asset dispositions partially offset by other income.

Other expense was \$5.4 million in 2019, including \$2.8 million fair value reduction in private timberlands and multiple lesser non-recurring expenses related to asset acquisitions and dispositions, and environmental remediation.

Net Income (Loss)

Net income was \$33.4 million in 2020, as compared to net loss of \$46.7 million in the Strike affected prior year. We improved net income in 2020 by increasing shipments to strong North American markets, redirecting production from weaker export markets and improved timberlands operating costs, offset by impacts of the Strike that was resolved early in the year. Net income includes CEWS proceeds applied to overcome COVID-19 market uncertainty and related incremental operating costs.

Operating Restructuring Items

We incurred \$2.1 million of operating restructuring costs in 2020, including \$1.6 million of non-operating costs incurred due to the indefinite curtailment of the Company's Somass sawmill in 2017.

Operating restructuring costs were \$3.5 million in 2019, including \$2.1 million of 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.

Income Taxes

Improved operating earnings led to the recognition of \$14.6 million in income tax expense in 2020, as compared to income tax recovery of \$16.7 million in 2019. Export tax recovery of \$31.6 million and CEWS proceeds included in operating earnings contributed to increased 2020 income tax expense.

At December 31, 2020, the Company and its subsidiaries had unused non-capital loss carry forwards totaling approximately \$18.2 million in Canada, and \$5.8 million in the US, which can be used to reduce taxable income. In addition, the Company has unused capital losses carried forward of approximately \$84.2 million in Canada, which are available indefinitely.

COVID-19

Western is committed to the health and safety of our employees, contractors and the communities where we operate. To help mitigate the spread of COVID-19, we have implemented strict health and safety protocols across our business that are based on guidance from health officials and experts, and in compliance with regulatory orders and standards.

Health and safety protocols currently being enforced include travel restrictions; self-isolation instructions for those who have travelled, are ill, exhibiting symptoms of COVID-19 or have come in direct contact with someone with COVID-19; implementing physical distancing measures; restricting site access to essential personnel and activities; increasing cleaning and sanitization in workplaces; and where possible, providing those who can work from home the ability to exercise that option. We continue to monitor and review the latest guidance from health officials and experts to ensure our protocols meet the current required standards.

In response to the impacts of the COVID-19 pandemic, the Company curtailed its BC manufacturing facilities for up to a one-week period effective March 23, 2020. After implementing enhanced health and safety protocols and re-evaluating operating conditions, we resumed operations except at our Ladysmith and Cowichan Bay sawmills, which remained curtailed due to a lack of log supply. By continuing to operate timberlands operations and increasing saw log purchases despite uncertainty arising from COVID-19, we rebuilt sufficient log inventory to resume manufacturing operations at our Cowichan Bay and Ladysmith sawmills on May 4 and August 4, 2020, respectively.

State of Emergency declarations and other restrictions relating to travel, business operations and isolation have been made by governing bodies in the regions that Western operates and sells its products. Western's business activities have been designated an essential service in Canada and the US, and we will continue to monitor and adjust our operations as required to ensure the health and safety of our employees, contractors and the communities where we operate and to address changes in customer demand. In addition, governments in Canada and the US have announced various financial relief programs for businesses. In 2020, we recognized \$13.0 million in CEWS as a reduction to cost of goods sold and selling and administrative expense. Western's eligibility for CEWS concluded in early June 2020, but we continue to evaluate our eligibility for relief programs as they are announced to help mitigate the financial impacts of COVID-19.

With the potential negative impacts to the global economy from COVID-19 and with dynamic global economic conditions, in the near-term we remain focused on maintaining financial flexibility, protecting the health and safety of our employees and contractors, and servicing our customers.

Sale of Ownership Interests in Limited Partnerships

On March 29, 2019, Western completed the sale of a 7% ownership interest in its newly formed TFL44 Limited Partnership (“TFL 44 LP”) to Huumiis Ventures Limited Partnership (“HVLP”), a limited partnership beneficially owned by the Huu-ay-aht First Nations. Western received \$7.3 million in exchange for the 7% ownership interest in TFL 44 LP.

On March 16, 2020, Western announced it had reached an agreement whereby HVLP will acquire an incremental 44% equity interest in TFL 44 LP (the “TFL 44 Transaction”) and a 7% equity interest in a newly formed limited partnership that will own the Alberni Pacific Division Sawmill (the “APD Transaction”) for total consideration of \$36.2 million. COVID-19 restrictions and other impacts have affected the ability for the parties to satisfy all closing conditions at this time, necessitating the closing of the TFL 44 transaction in two stages and delaying the closing of the APD Transaction.

The completion of each stage of the TFL 44 Transaction is subject to satisfaction of customary closing conditions, financing and certain third-party consents, including approval by the BC Provincial Government and the Huu-ay-aht First Nations People’s Assembly. The first stage of the TFL 44 Transaction involves the acquisition by HVLP of a further 28% equity interest in TFL 44 LP, for an interim combined equity interest of 35%. The total payable by HVLP for the first stage of the TFL 44 Transaction is \$22.4 million, \$2.6 million of which will be financed through vendor take-back financing provided by the Company with a maturity date of March 31, 2023. The first stage is anticipated to close in the second quarter of 2021. The second stage of the TFL 44 Transaction, for the acquisition by HVLP of a further 16% equity interest in TFL 44 LP for total consideration of \$12.8 million, is anticipated to close in the first quarter of 2023.

Western may sell to other area First Nations, including HVLP, a further incremental ownership interest of up to 26% in TFL 44 LP, under certain conditions. The Company and TFL 44 LP will also enter into a long-term fibre agreement to continue to supply the Company’s BC coastal manufacturing operations, which have undergone significant capital investment over the past several years.

The APD Transaction is anticipated to close in the first quarter of 2023.

Labour Relations Update

On February 15, 2020, we announced that USW members had voted in support of a new 5-year collective agreement effective from June 15, 2019 and expiring on June 14, 2024.

On February 3, 2021, members of the PPWC representing unionized employees at our Ladysmith Sawmill ratified a new eight-year collective agreement effective from January 1, 2021 and expiring on December 31, 2028.

Dividend and Capital Allocation

We remain committed to a balanced approach to capital allocation. To return capital to shareholders, we have reinstated a regular quarterly dividend and may complement it with common share repurchases under our renewed Normal Course Issuer Bid (“NCIB”).

We will continue to evaluate opportunities to invest strategic and discretionary capital in jurisdictions that create the opportunity to grow long-term shareholder value. We expect to focus near-term strategic capital investments on projects that reduce manufacturing costs or address kiln drying and planer capacity constraints on the BC Coast. These potential investments will help support growth of our specific product line initiatives. The Company will evaluate all capital allocation decisions after considering our operating results, financial condition, cash requirements, financing agreement restrictions and other factors or financial metrics that may be deemed relevant.

Quarterly Dividend

With the global economic uncertainty arising from COVID-19 and added financial requirements of resetting the business post-Strike, on May 6, 2020, the Company suspended its quarterly dividend to maintain financial flexibility.

The Company’s Board of Directors have reinstated a quarterly dividend of \$0.01 per common share. The next quarterly dividend will be payable on March 12, 2021, to shareholders of record on February 26, 2021.

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

Normal Course Issuer Bid

On August 7, 2020, the Company renewed its NCIB permitting the purchase and cancellation of up to 18,759,858 of the Company's common shares or approximately 5% of the common shares issued and outstanding as of August 6, 2020. The Company also entered into an automatic share purchase plan with its designated broker to facilitate purchases of its common shares under the NCIB at times when the Company would ordinarily not be permitted to purchase its common shares due to regulatory restrictions or self-imposed blackout periods.

The Company's previous NCIB to purchase for cancellation up to 18,763,888 common shares expired on August 7, 2020. The Company did not purchase any common shares under the previous NCIB.

During 2020, the Company did not repurchase common shares such that 18,759,858 common shares remain available to be purchased under the renewed NCIB. The NCIB expires on August 10, 2021.

Strategy and Outlook

Western's long-term business objective is to create superior value for shareholders by building a sustainable, margin-focused log and lumber business of scale to compete successfully in global softwood markets. We believe this will be achieved by maximizing the sustainable utilization of our forest tenures, 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 noted:

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 2020, we announced an agreement to sell an incremental ownership interest in TFL 44 LP 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. In 2020, we

reached marketing and vendor purchase agreements with certain customers, increasing our lumber sales into North American Home Centre and Pro-Dealer sales channels.

- We created a new product branding strategy that differentiates our high-quality products in the North American Home Centre sales channel and is supporting increased demand for our products.

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. In 2020, this initiative led to the launch of our Japanese Cedar fencing lumber to complement our WRC product portfolio.
- We continue to evaluate opportunities to grow our business and long-term shareholder value.

Sales & Marketing Strategy Update

In 2020, we redirected lumber production from relatively weak export markets to the improving North American market. We purposely targeted sales to selected customers in the treating sector where our product mix could provide the most value. In the near term we anticipate North American pricing to remain above trend levels and will look to grow our presence in the specialty treated lumber sector.

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.

We continue to develop and evaluate growth opportunities for our wholesale lumber business, including the inception of a Japanese Cedar products program and ongoing Yellow Cedar product development. In our US operations, our Columbia Vista division continues to exceed our expectations and has been a positive addition to our business and product mix.

Market Outlook

Robust North American lumber markets have continued into 2021, with the combination of strong demand and constrained supply delivering an unseasonably strong pricing environment. Export market demand has improved, which we believe will support higher pricing for our products in Japan and China. While volatility may linger, positive pricing momentum is expected to continue as the result of strong repair and renovation and construction segments, North American housing fundamentals, and relatively low market inventories. Looking long-term, increasing demand for carbon neutral products and improved recognition of lumber as the most sustainable building product on the planet will grow demand and benefit the forest sector.

Demand and pricing for our WRC and Niche products are expected to continue to improve as we benefit from the strength of the North American repair and renovation segment.

In Japan, declining housing starts in 2020 reduced demand for lumber. As supply adjusted to the new level of demand, inventories rebalanced. Despite weaker demand and increased competition from lower priced, subsidized Japanese domestic species, the improved inventory situation is expected to support higher pricing in the near-term.

We expect domestic saw log prices to increase in response to improving lumber markets, and greater competition from improved export markets.

The global Northern Bleached Softwood Kraft benchmark pulp price has improved early in the first quarter of 2021 and, if sustained, this could lead to modest improvements in pulp log and chip pricing.

Despite ongoing uncertainty arising from COVID-19 and the identification of new variants of the virus, we are hopeful that progress with vaccine roll-outs may positively influence lumber demand and pricing. We plan to utilize our flexible operating platform to adjust to market conditions and will continue to align our production volumes to match market demand.

Softwood Lumber Dispute

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 consists of significant volumes of high-value, appearance grade lumber, we are disproportionately impacted by these duties.

Western expensed \$34.6 million of export duties on its lumber shipments into the US in 2020 and recognized an offsetting export tax recovery of \$31.6 million arising from the DoC's final determination on assessed rates for 2017 and 2018. Export duty tax was comprised of CVD and AD at a combined rate of 20.23% on all lumber Western sold into the US until November 31, 2020 and a combined rate of 8.99% effective December 1, 2020.

At December 31, 2020, Western had \$123.6 million (USD \$95.2 million) of cash on deposit with the US Department of Treasury in respect of these softwood lumber duties, of which \$36.7 million (USD \$29.3 million) is recognized in the Company's balance sheet arising from rate determinations in 2017 and 2020.

Including wholesale lumber shipments, our sales to the US market represent approximately 32% of our total revenue in 2020. 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.

Non-GAAP Measures

Reference is made in this press release to the following non-GAAP measures: Adjusted EBITDA, Adjusted EBITDA margin, and Net debt to capitalization are used as benchmark measurements of our operating results and as benchmarks relative to our competitors. These non-GAAP measures are commonly used by securities analysts, investors and other interested parties to evaluate our financial performance. These non-GAAP measures do not have any standardized meaning prescribed by IFRS and may not be comparable to similar measures presented by other issuers. The following table provides a reconciliation of these non-GAAP measures to figures as reported in our audited annual consolidated financial statements:

<i>(millions of Canadian dollars except where otherwise noted)</i>	Q4 2020	Q4 2019	Q3 2020	Annual 2020	Annual 2019
Adjusted EBITDA					
Net income (loss)	\$ 34.4	\$ (29.2)	\$ 11.5	\$ 33.4	\$ (46.7)
Add:					
Amortization	14.3	12.4	14.0	53.5	45.4
Changes in fair value of biological assets, net	1.2	1.4	0.6	2.4	2.3
Operating restructuring items	0.6	2.1	0.5	2.1	3.5
Other expense ⁽¹⁾	6.2	2.8	0.6	5.0	2.9
Finance costs (income)	(0.5)	2.2	2.0	5.9	7.8
Current income tax recovery	-	(3.4)	-	(0.1)	(13.0)
Deferred income tax expense (recovery)	15.1	(6.6)	4.4	14.7	(3.7)
Adjusted EBITDA	<u>\$ 71.1</u>	<u>\$ (18.1)</u>	<u>\$ 33.7</u>	<u>\$ 116.8</u>	<u>\$ (1.5)</u>
Adjusted EBITDA margin					
Total revenue	\$ 318.9	\$ 80.1	\$ 290.6	\$ 964.9	\$ 807.7
Adjusted EBITDA	71.1	(18.1)	33.7	116.8	(1.5)
Adjusted EBITDA margin	22%	-23%	12%	12%	-0%
Net debt to capitalization					
Net debt					
Total debt, net of deferred financing costs	\$ 71.9	\$ 113.4	\$ 121.3		
Bank indebtedness	0.2	-	-		
Cash and cash equivalents	(2.9)	(2.1)	(1.9)		
Net debt	<u>\$ 69.2</u>	<u>\$ 111.3</u>	<u>\$ 119.4</u>		
Capitalization					
Net debt	\$ 69.2	\$ 111.3	\$ 119.4		
Add: Equity	504.5	481.8	471.1		
Capitalization	<u>\$ 573.7</u>	<u>\$ 593.1</u>	<u>\$ 590.5</u>		
Net debt to capitalization	12%	19%	20%		

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

- (1) Other expense, net of changes in fair market value less cost to sell of biological assets and loss (gain) on disposal of assets.

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”, “expect”, “anticipate”, “plan”, “intend”, “believe”, “seek”, “should”, “may”, “likely”, “continue” 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 United Steelworkers Local 1-1937 labour dispute; future costs; available harvest levels, capital allocation including issuance of dividends and capital expenditures, and our future operating performance, objectives, 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 and performance may materially vary. Many factors could cause our actual results or performance to be materially different including: economic conditions, international demand for the Company’s products, the Company’s ability to export its products, competition and selling prices, international trade disputes, changes in foreign currency exchange rates, labour disputes, natural disasters, relations with First Nations groups, First Nation’s claims and settlements, changes in laws, the availability of allowable annual cut and fibre, changes in regulations or public policy affecting the forest industry, changes in opportunities, information systems security, the existence of a public health crisis (such as the current COVID-19 pandemic) and other factors referenced under the “Risks and Uncertainties” section of our MD&A in our 2020 Annual Report dated February 18, 2021. 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 (exp, plus amortization of property, plant, and equipment, and intangible assets, impairment adjustments, and changes in fair value of biological assets. Adjusted EBITDA margin is adjusted 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 IFRS and it is not necessarily indicative of cash available to fund cash needs. Furthermore, adjusted EBITDA does not reflect the impact of certain items that affect our net income. Adjusted EBITDA and adjusted EBITDA margin are not measures of financial performance under IFRS, and should not be considered as alternatives to measures of performance under IFRS. Moreover, because all companies do not calculate adjusted EBITDA and adjusted EBITDA margin in the same manner, these measures as calculated by Western may differ from similar measures calculated by other companies. A reconciliation between the Company’s net income as reported in accordance with IFRS and adjusted EBITDA is included in this press release.

Also in this press release management may use 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:

Friday, February 19, 2021 at 9:00 a.m. PST (12:00 p.m. EST)

To participate in the teleconference please dial 416-406-0743 or 1-800-806-5484 (passcode: 8088589#). This call will be taped, available one hour after the teleconference, and on replay until March 22, 2021 at 8:59 p.m. PDT (11:59 p.m. EDT). To hear a complete replay, please call 905-694-9451 / 1-800-408-3053 (passcode: 1532836#).

For further information, please contact:
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