Western Forest Products Inc.
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Western Announces Second Quarter 2021 Results

Record Adjusted EBITDA of $120.4 million on Sales of $414.4 million

August 5, 2021 – Vancouver, British Columbia – Western Forest Products Inc. (TSX: WEF) ("Western" or the "Company") reported record adjusted EBITDA of $120.4 million in the second quarter of 2021. Western leveraged its flexible manufacturing platform to grow value-added lumber production and capitalize on strong North American markets.

Net income in the second quarter of 2021 was $78.3 million ($0.21 per diluted share), as compared to net income of $8.5 million ($0.02 per diluted share) for the second quarter of 2020 and net income of $53.8 million ($0.14 per diluted share) in the first quarter of 2021.

Second Quarter Highlights:

- Record quarterly adjusted EBITDA of $120.4 million and net income of $78.3 million
- Released 2020 Sustainability Report confirming Western's net positive climate impact
- Achieved Company record quarterly average realized lumber price of $1,598 per thousand board feet
- Completed the sale of an incremental 28% ownership of TFL 44 LP for proceeds of $22.4 million
- Returned $33.5 million to shareholders via dividends and share repurchases
- Grew available liquidity to $341.1 million to support of growth strategy and balanced capital allocation

Western's second quarter adjusted EBITDA was $120.4 million, as compared to adjusted EBITDA of $29.5 million in the second quarter of 2020 and $62.9 million reported in the first quarter of 2021. Operating income prior to restructuring and other items was $105.7 million, compared to income of $14.6 million in the second quarter of 2020, and $48.8 million of income reported in the first quarter of 2021.

(millions of Canadian dollars except per share amounts and where otherwise noted)	Q2 2021	Q2 2020	Q1 2021	YTD 2021	YTD 2020
Revenue	$ 414.4	$ 256.3	$ 322.5	$ 736.9	$ 355.4
Export tax expense	10.8	7.6	8.2	19.0	11.6
Adjusted EBITDA	120.4	29.5	62.9	183.4	12.0
Adjusted EBITDA margin	29%	12%	20%	25%	3%
Operating income (loss) prior to restructuring and other items	$ 105.7	$ 14.6	$ 48.8	$ 154.5	$ (13.8)
Net income (loss)	78.3	8.5	53.8	132.1	(12.5)
Earnings (loss) per share, basic and diluted	0.21	0.02	0.14	0.35	(0.03)
Net cash (debt), end of period	97.7	(152.1)	0.6		
Liquidity, end of period	341.1	95.1	244.0		

"We successfully increased North American lumber production and shipments in the first half of the year to benefit from record commodity pricing," said Don Demens, President and Chief Executive Officer. "Looking ahead, we will continue to leverage our flexible operating platform by directing volume to the highest margin alternatives."

Following the quarter, on July 21, 2021, Western announced the transition of its $250 million syndicated credit facility to include sustainability-linked borrowing cost incentives and extended its maturity through July 21, 2025. The sustainability borrowing cost incentives are linked to improving health and safety performance, increasing workforce diversity and advancing mutually beneficial First Nations relationships. These goals are consistent with Western's core values and strategic priorities. The credit facility continues to include an accordion feature which allows the Company to increase the aggregate borrowing amount up to $350 million, subject to lender approval.

Summary of Second Quarter 2021 Results

Adjusted EBITDA for the second quarter of 2021 was $120.4 million, as compared to adjusted EBITDA of $29.5 million in the same period last year. We successfully leveraged our flexible operating platform, directing increased shipments to strong North American lumber markets to deliver record quarterly adjusted EBITDA.

Operating income prior to restructuring and other items was $105.7 million, as compared to operating income prior to restructuring and other items of $14.6 million in the same period last year. Comparative results were significantly impacted by the restart of operations after the lengthy United Steelworkers Local 1-1937 ("USW") strike (the "Strike"), which had curtailed the majority of our British Columbia ("BC") based operations through February 2020, and by the impacts of the novel Coronavirus pandemic ("COVID-19"). Operating income prior to restructuring and other items in the second quarter of 2020 also included $10.7 million in COVID-19 support program ("CEWS") proceeds which allowed the Company to offset costs and maintain employment and operating levels during early COVID-19 lockdowns.

We continue to strictly enforce enhanced health and safety protocols and follow public health guidance to protect our employees, contractors and communities from COVID-19. Our business has not been significantly impacted by COVID-19 year-to-date, but we continue to monitor its influence on market conditions. Our near-term focus remains on ensuring the health and safety of our employees, maintaining financial flexibility, and servicing our customers.

Sales

The North American lumber market was exceptionally strong in the second quarter as demand from the new home construction and the repair and renovation segments outpaced supply, driving pricing to record levels. We took advantage of these market conditions by increasing our shipments into North America.

Lumber revenue rose 87% compared to the second quarter of last year, on increased North American shipments and higher prices for our products. Sales volumes increased by 45% driven by a 125% increase in commodity lumber shipments as compared to the second quarter last year, while shipments of Cedar, Japan specialty and Niche lumber products were relatively flat. North American commodity shipment volumes represented 72% of total commodity shipment volumes during the second quarter of 2021, up from 16% in same period last year, and well above our historical average.

Our average realized lumber price was $1,598 per thousand board feet, an increase of 29% from the second quarter of 2020 despite a relatively weaker sales mix. We capitalized on record pricing across all lumber markets, more than offsetting the impact of 13% appreciation of the Canadian to US dollar exchange rate quarter-over-quarter. Wholesale shipments grew by 9% in the second quarter of 2021 as compared to the same period last year, with limited wholesale supply and import container availability having constrained further growth.

Log revenue was $46.3 million in the second quarter of 2021, a decline of 23% from the same period last year due primarily to reduced sales volumes. We directed export-grade log inventory to our sawmills in support of lumber production to capitalize on the strong North American lumber market. We achieved a 28% higher average realized log price as compared to the second quarter last year despite a lower value sales mix, by capitalizing on limited market supply. Log revenue in the second quarter of 2020 was impacted by log inventory degradation that occurred during the Strike in certain BC operations.

By-product revenue was $15.0 million, an increase of $8.0 million as compared to the same period last year with increased production leading to higher by-product shipments. Chip price realizations improved by 59% from the second quarter last year, benefitting from a significantly higher NBSK pulp price.

Operations

We continued to leverage our flexible operating platform by redirecting production from export markets into the North American market in the second quarter of 2021.

Lumber production of 207 million board feet was 45% higher than the second quarter last year and was 4% higher than the first quarter of 2021. Lumber production in the second quarter of 2020 was impacted by the re-start of our BC operations following the end of the Strike and the initial slowdowns caused by COVID-19.

We achieved higher lumber production through increased operating hours, improved production efficiency, and improved sawmill recovery. The shift to increased North American commodity lumber production contributed to improved recovery, while increasing secondary processing requirements and related costs. As a safety precaution, we temporarily curtailed certain operations by up to eight shifts in late June 2021 due to an extreme heat wave.

We harvested 1,012,000 cubic metres of logs from our coastal operations in BC in the second quarter of 2021, as compared to 1,224,000 cubic metres in the second quarter last year and 688,000 cubic metres in the first quarter of 2021. Harvest was impacted by a heavy snowpack early in the second quarter of 2021, followed by extreme heat curtailments at the end of the quarter, as well as harvest permit delays. Harvest production costs increased as a result of a doubling of stumpage rates as compared to the second quarter of last year.

BC coastal saw log purchases were 227,000 cubic metres, a decrease of 4% from the same period last year. Log markets remain competitive with demand outpacing current supply.

Second quarter freight expense increased by $6.7 million from the same period last year. Freight expense grew primarily as a result of higher lumber shipment volumes and increased container costs, partly offset by the impact of significantly reduced export log shipments. We partly mitigated the impact of limited container availability and rising container costs by converting a component of our container freight volume to breakbulk shipments.

Adjusted EBITDA and operating income included $10.8 million of countervailing duty (“CV”) and anti-dumping duty (“AD”) expense in the second quarter of 2021, as compared to $7.6 million in the same period of 2020. A more than doubling of the volume of US-destined lumber shipments from Canadian operations offset the reduction in the cash deposit rates from 20.23% to 8.99%.

Comparative results for the second quarter of 2020 included CEWS proceeds of $9.3 million as an offset to cost of goods sold. CEWS helped reduce the negative financial impact of COVID-19 on our business, and prevented temporary operating curtailments, employee layoffs and offset some costs of enhanced health and safety protocols.

Selling and Administration Expense

Second quarter selling and administration expense was $16.7 million in 2021 as compared to $8.1 million in the second quarter last year.

Record financial results and a 17% share price appreciation in the second quarter of 2021 had a net incremental expense impact of $6.8 million. Performance-based incentive compensation drove $3.7 million of this incremental expense in the second quarter with negligible expense recognized in the same period last year. In addition, vesting of incentive plans and mark-to-market expense on long-term compensation liabilities contributed $3.1 million more expense than in the second quarter last year.

Comparatives were affected by the recognition of $1.4 million of CEWS proceeds which somewhat offset additional costs related to COVID-19, including maintaining pre-pandemic staff levels.

Other Income

We recognized other income of $1.9 million attributable primarily to gains from the sale of non-core properties, somewhat offset by $0.5 million in foreign exchange losses on the remeasurement of USD duty receivables and related interest. In the same period last year, we realized $0.2 million of other income largely resulting from gains on the sale of obsolete operating equipment.

Finance Costs

Finance costs were $0.4 million as compared to $2.2 million in the second quarter last year, due to a significant decline in the average outstanding debt balance. The Company maintained a net cash position throughout the second quarter of 2021.

Income Taxes

We used our remaining non-capital Canadian tax loss carryforwards during the first quarter of 2021, which will result in cash taxes payable for the tax year ending December 31, 2021. Accordingly, current income tax expense of $31.2 million and a deferred income tax recovery of $3.3 million, respectively, were recognized in net income in the second quarter of 2021. Income tax expense increased by $24.4 million from the second quarter of 2020 as a result of record operating earnings.

Net Income

Net income for the second quarter of 2021 was $78.3 million, as compared to net income of $8.5 million for the same period last year. Significantly improved net income resulted from strong operating performance, record pricing in North American log and lumber markets, and continued strength in specialty lumber markets. Comparative results were impacted by the business restart after the end of the Strike, and the negative financial impacts arising from the uncertainty of COVID-19.

Summary of Year to Date 2021 Results

Adjusted EBITDA for the first six months of 2021 was $183.4 million, as compared to $12.0 million for the same period last year as the Company reported record results by leveraging our flexible operating platform to redirect production and capitalize on record North American lumber pricing.

Operating income prior to restructuring and other items was $154.5 million, as compared to an operating loss prior to restructuring and other items of $13.8 million in the same period last year.

Sales

Lumber revenue for the first half of 2021 was $629.7 million,132% higher than the same period last year. We increased total shipments by 97% over the same period last year, and more than tripled commodity shipments to capitalize on record pricing. Comparative period revenue and shipments were negatively impacted by the Strike, which ended in February 2020, and by reduced demand resulting from the onset of COVID-19.

Improved lumber pricing led to an 18% increase in average lumber price realization as compared to the first half of last year, despite a lower specialty product mix. Significantly improved pricing, resulting from the North American finished lumber focus, was offset by the 9% appreciation in average Canadian to US dollar exchange rate period-over-period.

Log revenue was $79.4 million in the first half of 2021, an increase of 8% from the same period last year, despite reducing log sales volumes. We continue to direct more log volume to our manufacturing operations. We directed export logs to our sawmills to support increased commodity lumber production, to capitalize on the strong North American lumber market. The comparative period was impacted by a weaker log sales mix caused by Strike-related log degradation, and the impact of COVID-19 on global markets.

A return to normal operating rates led to higher by-product shipments from the same period last year, while average chip pricing improved 55% period-over-period. These factors grew revenue to $27.8 million in the first half of 2021, from $10.0 million in the same period last year. The first half of 2020 was also impacted by lower by-product production during the Strike, reduced chip purchase-and-resale volume, and reduced shipments as a result of temporary coastal pulp operating curtailments.

Operations

Lumber production in the first half of 2021 was 406 million board feet, 99% higher than the same period last year. Comparative period lumber production was negatively impacted by curtailed BC operations during the Strike, processing log inventory that had degraded during the Strike, and by the initial impacts of COVID-19.

We achieved higher lumber production through increased operating hours, improved production efficiency, and improved sawmill recovery. The shift to increased North American commodity lumber production contributed to improved recovery, while increasing secondary processing requirements and related costs. As a safety precaution, we temporarily curtailed certain operations by up to eight shifts in late June 2021 due to extreme heat.

Log production for the first half of 2021 was 1,700,000 cubic metres, an increase of 22% over the same period last year. Logging operations were curtailed for most of the first quarter of 2020 due to the Strike and actions taken to mitigate COVID-19 health and safety risks. In 2021, we increased private timber production which reduced requirements for higher cost purchased logs. We increased BC coastal saw log purchases by 12% from the same period last year to support sawmill production.

Harvesting in the first half of 2021 was impacted by a heavy snowpack early in the season, followed by extreme heat curtailments at the end of the period. Higher harvest production costs in the first half of 2021 resulted from an almost doubling of stumpage rates as compared to the same period in 2020.

Freight expense for the first half of 2021 was $49.6 million, an increase of 88% as compared to same period last year as a result of significantly higher lumber shipments and increased container costs. We partly mitigated the impact of limited container availability and rising container costs by converting a component of our container freight volume to breakbulk shipments.

Adjusted EBITDA and operating income in the first six months of 2021 included $19.0 million of CV and AD expense, as compared to $11.6 million in the same period of 2020. A more than threefold increase in the volume of US-destined lumber shipments from Canadian operations was somewhat offset by a reduction in the cash deposit rates from 20.23% to 8.99% and a stronger Canadian Dollar by 9%, on average in the first half of 2021.

Comparative results also included CEWS proceeds of $9.3 million as an offset to cost of goods sold. CEWS helped reduce the negative financial impact COVID-19 on our business, prevented temporary operating curtailments and employee layoffs and offset some costs of enhanced health and safety protocols.

Selling and Administration Expense

Selling and administration expense for the first half of 2021 was $31.0 million as compared to $14.5 million in the same period last year. Record financial results and a 65% share price appreciation in the first half of 2021 had a net incremental expense impact of $14.0 million.

Year-to-date mark-to-market expense on long-term compensation liabilities was $3.3 million in 2021, as compared to a recovery of $0.5 million in the comparative period of 2020, with the vesting of incentive plans contributing an additional $4.4 million expense year over year. Performance-based incentive compensation drove an incremental $5.8 million expense in the first half of 2021.

Comparatives were affected by the recognition of $1.4 million of CEWS proceeds which somewhat offset additional costs related to COVID-19, including maintenance of pre-pandemic staff levels.

Finance Costs

Finance costs were $1.3 million, compared to $4.4 million in the first half of 2020. Strong cash flows generated from operations were used to repay drawings under the credit facility, resulting in a significant decline in the average outstanding debt balance.

Income Taxes

We used our remaining non-capital Canadian tax loss carryforwards during the first quarter of 2021, which will result in cash taxes payable for the tax year ending December 31, 2021. Accordingly, current income tax expense of $40.0 million and a deferred income tax recovery of $1.8 million, respectively, were recognized in net income in the first half of 2021. Income tax expense increased by $43.1 million from the first half of 2020 as a result of record operating earnings. Capital loss carryforwards were applied against taxable capital gains arising from non-core asset dispositions.

Net Income

Strong operating performance and record prices resulted in a net income for the first half of 2021 of $132.1 million, as compared to a net loss of $12.5 million for the same period last year, which was impacted by COVID-19 and the Strike.

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. We continue to monitor and review the latest guidance from health officials and experts to ensure our protocols meet the current required standards. 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.

Sustainability and Environmental, Social and Governance Advancements

Net Positive Climate Impact

Our 2020 Sustainability Report was released in the second quarter of 2021, detailing our progress and commitment to key sustainability initiatives. This report includes the results our first full lifecycle carbon accounting, which confirmed the positive role Western's sustainable forest management practices and wood products have in fighting against climate change.

During 2018 and 2019, Western's activities, including the sustainable management of forests in our care, resulted in 14.2 million tonnes of CO_2 equivalent being removed from the atmosphere.

Our latest Sustainability Report is available on our website at www.westernforest.com/responsibility/.

Sustainability-Linked Credit Facility

On July 21, 2021, Western completed the transition of our current syndicated credit facility into a $250 million sustainability-linked credit facility ("Amended Credit Facility"). The Amended Credit Facility incorporates incentive pricing terms that can reduce or increase Western's borrowing costs by up to five basis points based on the outcome of various sustainability-linked goals. Western has selected borrowing cost sustainability goals that are linked to improving health and safety performance, increasing workforce diversity and advancing mutually beneficial First Nations relationships. These goals are consistent with Western's core values and strategic priorities.

The Amended Credit Facility maturity date was extended to July 21, 2025, and it retains an accordion feature that allows Western to increase aggregate borrowing up to $350 million, subject to lender approval.

First Nations, Employees and Community

As part of further developing First Nations relationships, Western completed the next phase of the TFL44 Limited Partnership ("TFL 44 LP") transaction with the Huu-ay-aht First Nations. See *"Sale of Ownership Interests in TFL 44 Limited Partnership"* for further information.

In addition, in July 2021, Western and Quatsino First Nation finalized a land transaction to support the establishment of the Quatsino First Nation waterfront community. We also announced a renewal agreement and joint planning project with the Tla'amin Nation in July 2021, building on our recent Memorandum of Understanding. These formal agreements are major milestones in advancing mutually beneficial relationships with the Quatsino and Tla'amin Nations, and exemplify Western's ongoing actions to support reconciliation and seek ways to partner with First Nations in sustainable forest management. Other recent initiatives pursued by Western in partnership with First Nations include a range of information sharing agreements and operating protocols, including the Large Cultural Cedar Protocol developed in collaboration with the Nanwakolas Council and its member Nations.

During 2021, Western has also continued to demonstrate our commitment to our employees and communities in which we operate. This has included providing non-executive employees a second COVID-19 related safety performance bonus, to show appreciation for their safety commitment and dedication during the pandemic. We have also committed or spent $500,000 in community donations year-to-date, including $50,000 to the Canadian Red Cross BC Fire Appeal Campaign to support communities impacted by recent forest fires in the BC Interior.

Further details of these community and First Nations initiatives are available on our website at www.westernforest.com/responsibility/community/.

Sale of Ownership Interests in TFL 44 Limited Partnership

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 affected the ability for the parties to satisfy all closing conditions, necessitating the closing of the TFL 44 Transaction in two stages and delaying the closing of the APD Transaction.

On May 3, 2021, Western completed the sale of an incremental 28% equity interest in its TFL 44 LP to Huumiis Ventures Limited Partnership (“HVLP”), a limited partnership beneficially owned by the Huu-ay-aht First Nations, for $22.4 million. With the completion of this stage of the TFL 44 Transaction, HVLP’s current equity interest in TFL 44 LP is 35%.

The next 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 second quarter of 2023, and 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.

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 second quarter of 2023.

Sale of Other Non-Core Assets

Through the first six months of 2021, Western has completed $44.4 million in non-core asset sales, including the sale of Orca Quarry assets and other non-core property and surplus equipment.

Pending Sale of Somass Division Assets

On June 18, 2021, the City of Port Alberni (“COPA”) issued an Expropriation Notice for the lands upon which the Company’s Somass Division is situated in Port Alberni, BC. The Expropriation Act limits Western’s rights to verifying justification for the expropriation and a right to fair market value compensation.

On July 21, 2021, Western issued a Notice of Request for Inquiry to initiate a non-determinative review of the City’s justification for expropriation, which should conclude by the fourth quarter of 2021. The Company and COPA are pursuing a negotiated agreement to resolve this matter.

The Somass sawmill was indefinitely curtailed in February 2017 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 US Softwood Lumber dispute.

Timber Tenure Reduction

Approximately 89% of Western’s 5,946,000 cubic metre sustainable allowable annual cut (“AAC”) is in the form of Tree Farm Licenses (“TFL”). TFLs are granted for 25-year terms and are replaced by the BC Provincial Government (the “Province”) every five to ten years with a new 25-year term.

In the latter half of 2021, we anticipate the Province’s Chief Forester to issue a final determination on the AAC in TFL 19, which is approximately 729,000 cubic metres. We expect that determination may reduce the AAC of TFL 19 by up to 18% or approximately 130,000 cubic metres.

Provincial legislation requires the Chief Forester to routinely review sustainable harvesting levels of individual tenures at least every 10 years and to issue a determination which may result in an increase or decrease to AAC. The AAC determination reflects tree growth, ecology, regional and local economic and social interests, water and other environmental considerations that define how forests can be managed.

More information on our tenure rights and sustainable harvest practices can be found in the Company's Annual Information Form, which is available on SEDAR at www.sedar.com, and Western's Sustainability Report, which is available at www.westernforest.com.

Regulatory Environment

During 2019 and 2020, the Province introduced various policy initiatives and regulatory changes that impact the BC forest sector regulatory framework as part of a Coastal Revitalization Initiative, including fibre recovery, lumber remanufacturing, old growth forest management and the exportation of logs. For additional details on these policy initiatives and regulatory changes please see the "BC Government Forest Policies Update" heading and "Regulatory Risks" under the heading "Risks and Uncertainties", in our Management's Discussion and Analysis for the year ended December 31, 2020.

Current provincial policy requires that forest management and operating plans take into account and not unreasonably infringe on Aboriginal rights and title, proven or unproven, and provide for First Nations consultation. First Nation opposition to a forest tenure or other operating authorization may delay the Province from granting the permit application. For additional details on these policy requirements and regulatory aspects in relation to First Nations see "First Nations Land Claims" and "Regulatory Risks" under the heading "Risks and Uncertainties", in our Management's Discussion and Analysis for the year ended December 31, 2020. The Company may manage risks associated with delays in the Province granting operating authorizations through fostering positive working relationships with the First Nations, with asserted traditional territories within which Western operates, through information sharing, timber harvesting, silviculture, planning and other mutually beneficial arrangements. The Company may partly mitigate the operating impacts of permit delays by increasing permitted harvest in other areas; by purchasing more logs on the open market or through BC Timber Sales; and by increasing harvest production from private timberlands.

Old-Growth Logging Deferral

On June 9, 2021, the Province deferred old-growth logging in 2,000 hectares of forest in southwestern Vancouver Island, BC for a period of two years. The deferral was implemented at the request of local First Nations, with the deferral period aligned with timelines required to prepare resource-stewardship plans in collaboration with tenure rights holders.

TFL 44 LP, which is owned and managed by Western and the Huu-ay-aht First Nations, has no active or planned cutting permits in the 2,000-hectare old growth logging deferral area and TFL 44 LP's forestry activity continues as planned.

The Province has indicated that additional deferrals may be forthcoming and Western will work with First Nations and government as these decisions are made, respecting the rights and title of First Nations, including their right to economically benefit from the lands within their traditional territories.

Dividend and Capital Allocation

We remain committed to a balanced approach to capital allocation. To return capital to shareholders, we reinstated a regular quarterly dividend in 2021 and continue to repurchase common shares under our 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 internal 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, as well as add value to our products. We currently have approximately $10 million in strategic capital projects underway in BC, and we continue to evaluate opportunities to invest in the competitive positioning of our value-added operations. 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

The quarterly dividend program is intended to return a portion of the Company's cash to shareholders, after taking into consideration liquidity and ongoing capital needs. In the first quarter of 2021, the Company's Board of Directors reinstated a quarterly dividend of $0.01 per common share, which had been suspended in the second quarter of 2020 in response to the global economic uncertainty arising from COVID-19 and added financial requirements of resetting the business post-Strike.

The Company's Board of Directors will continue to review our dividend on a quarterly basis. Dividends of $3.6 million and $7.4 million were paid in the three and six months ending June 30, 2021, respectively.

Normal Course Issuer Bid

On June 22, 2021, the Company amended its NCIB to increase the number of shares permitted to be purchased and cancelled to 23,112,988, representing 7.5% of the public float 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.

During the first half of 2021, we repurchased 15,723,116 common shares for $32.2 million at an average price of $2.05 per common share. No common shares were repurchased in the same period of last year.

As at August 5, 2021, we have purchased 21,354,656 common shares for $43.6 million at an average price of $2.04 per common share under the current NCIB. We are permitted to purchase up to an additional 1,758,332 common shares under the amended NCIB, which expires on August 10, 2021.

On August 5, 2021, we renewed our NCIB permitting the purchase and cancellation of up to 29,726,940 of the Company's common shares, representing 10% of the public float outstanding as of August 5, 2021. The renewed NCIB will begin on August 11, 2021 and end no later than August 10, 2022. The Company also entered into an automatic share purchase plan with its designated broker to facilitate purchases of its common shares under the renewed 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.

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; partnering with First Nations in sustainable forest management; 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.

For more detail on our strategic initiatives and actions, refer to "*Strategy and Outlook*" in our Management's Discussion and Analysis for the year ended December 31, 2020.

Sales & Marketing Strategy Update

To capitalize on a strong North American market in the first half of 2021, we redirected lumber production from relatively weak export markets. We targeted sales to selected customers in the North American treating sector where our product mix could provide the most value. With the recent return to more normalized North American lumber pricing, and relative strength in export markets, we anticipate redirecting some of our production back into export markets in the second half of 2021.

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 Japanese Cedar products program and ongoing Yellow Cedar product development. In our US operations, our Columbia Vista division has been a positive addition to our business and product mix.

Market Outlook

After reaching a record high in May, North American commodity lumber markets have returned to more normalized pricing. An easing of COVID-19 related restrictions reintroduced alternatives to time at home, ultimately slowing repair and renovation activity. The resulting reduction in demand, and seasonally higher production, has led to a market rebalancing. We expect near-term commodity lumber market volatility to continue as North American demand and supply find equilibrium.

Demand and pricing for our Cedar and Niche products has improved across all product categories over the last few quarters on the strength of a robust residential repair and renovation market. Continued strength in this market and constrained supply should continue to support pricing through the remainder of the year.

In Japan, reduced lumber import volumes and limited domestic lumber production have failed to meet market demand. These factors reduced inventories and led to price improvements. In response to a rising price environment, we increased shipments to Japan late in the second quarter of 2021 and we expect to continue that momentum through the remainder of the year.

Domestic saw log prices increased in the first half of the year in response to improved lumber markets. We expect pricing to remain higher in the near-term due to limited supply. The price for Northern Bleached Softwood Kraft pulp has stabilized after retreating from a recent high, and that should support current pricing for our pulp logs and sawmill residual chips.

Western North America is currently facing extreme heat and dry forest conditions resulting in wildfires. There have been no significant fire events in our timberlands, however we have recently reduced harvesting activities to adhere to safety and fire-risk guidelines. If sustained, these operating conditions combined with the potential for harvest permit delays may impact near-term log availability and our future operating levels.

The ongoing challenges related to COVID-19 continue to create uncertainty in our business and could lead to additional pricing volatility. 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.

Long-term, we believe that strong North American housing market fundamentals will support lumber demand and pricing, above trend levels into the future. Low mortgage interest rates, an aging housing stock, a housing deficit stemming from years of underbuilding, and the influence of work-from-home arrangements on the repair and renovation segment are expected to continue to drive growing demand for lumber. At the same time supply has been reduced due to the impact of permanent production curtailments resulting from Mountain Pine Beetle in the BC Interior.

In addition, we expect growth in mass timber building technologies, the need 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 long-term.

Softwood Lumber Dispute

The US application of duties on shipments of Canadian lumber continues a long-standing pattern of US protectionist action. We disagree with the inclusion of specialty lumber products, particularly 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. For a comprehensive history of the softwood lumber trade dispute and related North American Free Trade Agreement ("NAFTA") challenge proceedings, please see "*Risks and Uncertainties*" in our Management's Discussion and Analysis for the year ended December 31, 2020.

Western expensed \$10.8 million of export duties on its lumber shipments into the US in the second quarter of 2021, as compared to \$7.6 million in the same period last year. Our export duty expense increased despite lower duty rates and a stronger Canadian dollar as we increased shipments to the US during the period.

In the fourth quarter of 2020, Western recognized an export tax recovery of $31.6 million arising from the Department of Commerce's ("DoC") final determination on assessed rates for 2017 and 2018. Export duty tax was comprised of CV and AD at a combined rate of 20.23% on all lumber Western sold into the US until November 30, 2020 and a combined rate of 8.99% effective December 1, 2020.

On May 21, 2021, the DoC released preliminary revised rates in the CV and AD second administrative review of shipments for the year ended December 1, 2019 for a combined rate of 18.32%. The DoC may revise these rates between the preliminary and the final determination, expected to be released November 24, 2021. Cash deposits continue at the combined duty rate of 8.99% until the final determinations are published, after which the 2019 rate will apply.

At June 30, 2021, Western had $134.8 million (US$108.8 million) of cash on deposit with the US Department of Treasury in respect of these softwood lumber duties, of which $36.0 million (US$29.0 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 41% of our total revenue in the first half of 2021, as compared to 29% in the same period last year and 32% in fiscal 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 unaudited condensed consolidated financial statements:

(millions of Canadian dollars except where otherwise noted)

Adjusted EBITDA	**Q2 2021**	**Q2 2020**	**Q1 2021**	**YTD 2021**	**YTD 2020**
Net income (loss)	$ 78.3	$ 8.5	$ 53.8	$ 132.1	$ (12.5)
Add:					
Amortization	13.3	14.2	12.9	26.2	25.2
Changes in fair value of biological assets	1.5	0.6	1.2	2.7	0.6
Operating restructuring items	0.5	0.6	0.5	1.0	1.0
Other income (1)	(1.4)	(0.2)	(16.7)	(18.1)	(1.8)
Finance costs	0.4	2.2	0.9	1.3	4.4
Current income tax (recovery)	31.2	-	8.8	40.0	(0.1)
Deferred income tax (recovery)	(3.3)	3.5	1.5	(1.8)	(4.8)
Adjusted EBITDA	$ 120.4	$ 29.5	$ 62.9	$ 183.4	$ 12.0
Adjusted EBITDA margin					
Total revenue	$ 414.4	$ 256.3	$ 322.5	$ 736.9	$ 355.4
Adjusted EBITDA	120.4	29.5	62.9	183.4	12.0
Adjusted EBITDA margin	29%	12%	20%	25%	3%
Net debt to capitalization					
Net debt					
Total debt	$ 1.9	$ 154.2	$ 2.5		
Cash and cash equivalents	(99.6)	(2.1)	(3.1)		
Net debt (cash)	$ (97.7)	$ 152.1	$ (0.6)		
Capitalization					
Net debt (cash)	$ (97.7)	$ 152.1	$ (0.6)		
Add: equity	611.5	461.4	552.6		
Capitalization	$ 513.8	$ 613.5	$ 552.0		
Net debt to capitalization	-	25%	-		

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

(1) Other income, net of changes in fair market value less cost to sell of biological assets and 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”, “forecast”, “intend”, “believe”, “seek”, “could”, “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: domestic and international market conditions, demands and growth; economic conditions; our growth, marketing, product, wholesale, operational and capital allocation plans and strategies, including but not limited to payment of a dividend; fibre availability and regulatory developments; the impact of COVID-19; and the selling of additional incremental ownership interest in TFL 44 LP and in other potential LP structures in the future. 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 and financial conditions, international demand for forest 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 , the availability of fibre and allowable annual cut, the ability to obtain operational permits, development and changes in laws and regulations affecting the forest industry including as related to old growth timber management and the Manufactured Forest Products Regulation, changes in the price of key materials for our products, changes in opportunities, future developments in the 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 items 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, August 6, 2021 at 9:00 a.m. PDT (12:00 p.m. EDT)

To participate in the teleconference please dial 416-340-2217 or 1-800-952-5114 (passcode: 3014410#). This call will be taped, available one hour after the teleconference, and on replay until September 6, 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: 9352044#).

For further information, please contact:
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