



Western Forest Products Inc.
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TSX: WEF

Western Announces Fourth Quarter 2021 Results
Delivers a record adjusted EBITDA of \$302.1 million for 2021

February 16, 2022 – Vancouver, British Columbia – Western Forest Products Inc. (TSX: WEF) (“Western” or the “Company”) reported net income of \$28.5 million and adjusted EBITDA⁽¹⁾ of \$52.5 million in the fourth quarter of 2021. Utilizing our flexible operating platform, we redirected production to the highest margin product lines to capitalize on strong lumber markets. We achieved these results despite the operating impacts of COVID-19, global logistics challenges, and significant weather-related events.

Operating income prior to restructuring and other items was \$39.4 million, compared to income of \$56.0 million in the fourth quarter of 2020, and \$53.5 million of income reported in the third quarter of 2021. Net income in the fourth quarter of 2021 was \$28.5 million (\$0.08 per share), as compared to net income of \$34.4 million (\$0.09 per share) for the fourth quarter of 2020 and net income of \$42.2 million (\$0.12 per share) in the third quarter of 2021. Fourth quarter results include an export tax recovery of \$3.3 million in 2021 and \$31.6 million in 2020.

Fourth Quarter Highlights:

- Delivered fourth quarter adjusted EBITDA of \$52.5 million and net income of \$28.5 million
- Realized average lumber price of \$1,634 per thousand board feet by redirecting production and sales to Japan markets to achieve the highest margin returns available in global markets
- Advanced First Nations reconciliation efforts through various initiatives including the sale of forest and timber licence interests and by advancing multiple Integrated Resource Management Plans.
- Returned \$37.8 million to shareholders via dividends and share repurchases
- Liquidity⁽¹⁾ of \$371.4 million to support growth strategy and balanced capital allocation

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

	Q4 2021	Q4 2020	Q3 2021	Annual 2021	Annual 2020
Revenue	\$ 327.9	\$ 318.9	\$ 352.9	\$ 1,417.7	\$ 964.9
Export tax expense	4.6	12.1	6.2	29.8	34.6
Export tax recovery	(3.3)	(31.6)	-	(3.3)	(31.6)
Adjusted EBITDA	52.5	71.1	66.3	302.1	116.8
Adjusted EBITDA margin ⁽¹⁾	16%	22%	19%	21%	12%
Operating income prior to restructuring and other items	\$ 39.4	\$ 56.0	\$ 53.5	\$ 247.4	\$ 61.2
Net income	28.5	34.4	42.2	202.8	33.4
Earnings per share, basic and diluted	0.08	0.09	0.12	0.56	0.09
Net cash (debt) ⁽²⁾ , end of period	130.0	(69.2)	143.1		
Liquidity, end of period	371.4	178.3	384.4		

Western achieved a record adjusted EBITDA of \$302.1 million and Return on Capital Employed (“ROCE”)⁽¹⁾ of 45% in 2021, as compared to adjusted EBITDA of \$116.8 million and ROCE of 17% in 2020.

“We managed through significant operational and logistics headwinds to deliver our best annual financial results ever,” said Don Demens, President and Chief Executive Officer. “The combination of strong operating cashflows and proceeds from non-core asset sales in 2021 have supported a repositioning of our balance sheet that will support Western’s future growth.”

(1) Refer to Adjusted EBITDA, Liquidity, Adjusted EBITDA margin and ROCE in the Non-GAAP Financial Measures section.

(2) Net debt (cash), a supplemental measure, is defined as long-term debt and bank indebtedness less cash and cash equivalents.

Summary of Fourth Quarter 2021 Results

We successfully leveraged our flexible operating platform, managing through the impacts of global logistics constraints compounded by weather challenges, to increase Japan lumber shipments and realize record fourth quarter revenue in 2021.

We reported adjusted EBITDA of \$52.5 million in the fourth quarter of 2021 as compared to adjusted EBITDA of \$71.1 million in the same period last year. Financial results for the fourth quarter of 2020 included \$31.6 million in export tax recovery, as compared to \$3.3 million in same quarter of 2021, resulting from the finalization of certain United States ("US") imposed export tax rates.

Fourth quarter operating income prior to restructuring and other items was \$39.4 million in 2021, as compared to operating income prior to restructuring and other items of \$56.0 million in the same period last year. Net income for the fourth quarter of 2021 was \$28.5 million as compared to net income of \$34.4 million in the comparative period of 2020.

Sales

Strong demand and logistics-related supply challenges continued to support robust lumber pricing in Japan, while price momentum was muted for North American commodity lumber until late in the fourth quarter of 2021. We took advantage of these market conditions by increasing shipments to Japan, despite logistics issues. As commodity lumber prices rallied in December 2021, and with continued export logistics challenges, we began to redirect production to the North American market late in the quarter.

Lumber revenue rose 4% compared to the fourth quarter of last year despite a 20% decline in lumber shipment volumes. Lumber prices across our specialty product categories rose by 30% on average. Japan lumber shipments increased by 83%, but logistics challenges drove a reduction in lumber shipments to other markets. In addition, limited cedar log availability constrained cedar lumber production and shipments as compared to the same period last year. Flooding and severe winter weather in British Columbia ("BC") in November and December 2021 temporarily closed rail and highway shipping channels resulting in logistics disruptions that impacted the Company's shipments.

Our average realized lumber price was \$1,634 per thousand board feet, an increase of 30% from the fourth quarter of last year as we capitalized on strong pricing in Japan. We increased the percentage of specialty product shipments to 55% from 47% in the fourth quarter last year, partly as a result of logistics challenges that limited relatively lower-value commodity lumber shipments to China and the US. Fourth quarter lumber pricing was higher across all segments in 2021 except our commodity segment. Commodity lumber pricing began to rise late in fourth quarter, however logistics constraints largely delayed our realizing that improved pricing until the affected volumes shipped in 2022.

Log revenue was \$48.9 million, a decline of 8% from the fourth quarter last year. Weather related operating curtailments limited the harvest of logs and inventory available for sale. We redirected export-grade log supply to our sawmills in support of lumber production, except 6,000 cubic metres of export log sales originating from a First Nations arrangement. Average realized BC log prices increased by 7% from the same period last year as improved pricing offset a weaker log sales mix.

By-product revenue was \$11.0 million, an increase of \$2.1 million as compared to the same period last year. Chip price realizations improved as a result of significantly higher Northern Bleached Softwood Kraft ("NBSK") China pulp price.

Operations

Lumber production of 179 million board feet in the fourth quarter of 2021 was flat as compared to the same period last year. Log supply related operating curtailments and severe winter weather in December impacted lumber production.

We harvested 700,000 cubic metres of logs from our coastal operations in BC in the fourth quarter of 2021, as compared to 901,000 cubic metres in the same period last year. Log production was significantly impacted by weather related curtailments caused by significant rainfall in November followed by heavy snowfall in December. Timberlands per unit operating costs increased over the comparative period on lower production volumes, higher helicopter logging harvest volume and higher stumpage expense. Improved pricing for logs and lumber drove a threefold increase in stumpage rates applied to our business as compared to the same period last year, with rising stumpage expense mitigated in part through reduced harvest volume.

BC coastal saw log purchases were 211,000 cubic metres, a decrease of 5% from the same period last year. Coastal saw log supply remains tight as weather negatively impacted harvest volumes on the BC coast as compared to the same period last year.

Fourth quarter freight expense decreased 13% compared to the same period last year as a result of reduced lumber shipments and an absence of log exports. Freight costs per transaction continued to increase due to higher freight rates and a fourth quarter increase in the use of breakbulk vessels.

Adjusted EBITDA and operating income included \$4.6 million of countervailing duty (“CV”) and anti-dumping duty (“AD”) expense in the fourth quarter of 2021, as compared to \$12.1 million in the same period of 2020. Reduced duty rates and a stronger Canadian to US Dollar exchange rate more than offset the impact of decreased US-destined lumber sales volumes and higher lumber pricing on which duty was applied. The cash deposit rate increased to 17.90% in December 2021 with the issuance of the final determination by the US Department of Commerce (“DoC”) on assessed rates for 2019. For further information on CV and AD see “*Risks and Uncertainties*”.

Selling and Administration Expense

Fourth quarter selling and administration expense was \$13.2 million in 2021 as compared to \$11.8 million in the fourth quarter last year. Strong financial results contributed to \$0.8 million in incremental compensation expense over the comparative quarter of 2020, comprised of \$2.2 million incremental expense on performance-based compensation and the vesting of incentive plans, offset by a \$1.4 million mark-to-market recovery on long-term incentive compensation liabilities.

Finance Costs

Finance costs were \$0.2 million as compared to a recovery of \$0.5 million in the fourth quarter last year. Prior period finance costs were more than offset by \$2.2 million of interest income resulting from an export tax recovery. A significant reduction in average outstanding debt balance in 2021 drove reduced finance costs.

Other Income (Expense)

We recognized other income of \$0.3 million in the fourth quarter of 2021 as compared to an expense of \$6.4 million in the same period of 2020. Comparative results included impairments of \$3.6 million on non-core lands, \$2.0 million in losses on asset dispositions, and other expenses partially offset by other income.

Income Taxes

We used our remaining non-capital Canadian tax loss carryforwards during the first quarter of 2021, which resulted in cash taxes payable for the tax year ending December 31, 2021. Accordingly, current income tax expense of \$10.5 million and a deferred income tax recovery of \$0.3 million were recognized in net income in the fourth quarter of 2021. Lower operating earnings in part due to a smaller export tax recovery result in an income tax expense decrease of \$4.9 million from the fourth quarter of 2020.

Net Income

Net income for the fourth quarter was \$28.5 million, as compared to \$34.4 million for the same period of 2020. Strong product pricing was offset by lower shipments due to ongoing export logistics issues, a redirection of export-grade log supply to our mills as a result of low BC coastal harvest levels, and a lower export tax recovery.

Summary of 2021 Annual Results

We leveraged our flexible operating platform to pursue the highest margin opportunities and deliver record adjusted EBITDA of \$302.1 million, as compared to \$116.8 million for 2020. Financial results for 2020 included \$31.6 million in export tax recovery, as compared to \$3.3 million in 2021, resulting from the finalization of certain US imposed export tax rates.

Net income was \$202.8 million and earnings per share was \$0.56 per share for 2021 compared to net income of \$33.4 million and earnings per share of \$0.09 per share in 2020. Operating income prior to restructuring and other items was \$247.4 million, as compared to \$61.2 million in 2020, as a result of strong operating performance.

We began 2021 with lumber production and sales directed to North American commodity markets to take advantage of unprecedented pricing. This focus led to improved recovery while increasing secondary processing and related costs. As North American commodity pricing declined, we redirected production and grew export lumber shipments to Japan and China, taking advantage of robust Japan market pricing. Strong demand and supply constraints caused North American prices to rally late in the fourth quarter of 2021.

Comparative results were significantly impacted by the restart of operations after the lengthy United Steelworkers Local 1-1937 strike (the "Strike"), which had curtailed the majority of our BC-based operations through February 2020, and by the impacts of COVID-19.

Sales

Lumber revenue for 2021 was \$1.2 billion, 62% higher than 2020, as a result of a 22% increase in realized pricing and a 34% increase in shipment volumes.

During the first half of 2021, we capitalized on record North American commodity pricing by increasing commodity shipments. As 2021 progressed, we leveraged our flexible operating platform to take advantage of changing market conditions, transitioning production and shipments from record North American markets in the first half of the year to relatively stronger Japan lumber and China commodity lumber markets in the second half. Late in the fourth quarter of 2021, we began to transition our production to meet rising demand and pricing in the North American market. This strategy delivered a 64% increase in commodity lumber shipments as compared to the same period last year, while ensuring we benefitted from record pricing in the Japan lumber market. Overall price realizations were negatively impacted by a 7% appreciation in the average Canadian to US dollar exchange rate year-over-year.

Log revenue was \$169.3 million in 2021, a decrease of 16% from 2020 due to reduced sales volumes. We redirected export and certain domestic logs to our sawmills to support lumber production to capitalize on strong lumber markets. Despite these actions, we realized a 16% increase in average log price. Operating curtailments, permitting delays, adverse weather, including summer fire weather, heavy rainfall and early snowfall, reduced harvesting production in 2021. The comparative period was impacted by a weaker log sales mix caused by Strike-related log degradation.

By-product revenue grew to \$50.9 million, as compared to \$27.2 million in 2020, resulting from increased production and shipments, and a higher mix of whitewood chips as compared to 2020. Chip price realizations improved by 23% as a result of significantly higher NBSK pulp price and species mix.

Operations

Lumber production in 2021 was 760 million board feet, 32% higher than last year. We achieved higher lumber production in 2021 through increased operating hours and improved production efficiency, while production in the first quarter of 2020 was impacted by the Strike. The shift to increased North American commodity lumber production in the first half of 2021 contributed to higher production volumes and improved recovery. Production and recovery benefits associated with higher North American commodity production were partially offset by increased levels of processing required to manufacture North American commodity products. Lumber production in the second half of 2021 was impacted by lower recovery associated with export lumber production, and temporary operating curtailments due to constrained log supply. In late 2021, we began to redirect some production to North American commodity lumber as prices rallied and export logistics challenges continued.

Log production for 2021 was 3,090,000 cubic metres, a decrease of 10% over last year. Unfavourable weather conditions and permit delays impacted log production, and deferred a portion of road expense to future periods. Logging expenses have increased over 2020, primarily due to a 110% increase in stumpage expense. In 2020, 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.

Freight expense for 2021 was \$93.8 million, an increase of 27% as compared to last year due primarily to a 34% increase in lumber shipments. Rising container freight rates and higher costs from the increased use of breakbulk vessels were largely offset by a significant reduction in export log shipments. We partly mitigated ongoing export logistics issues and limited container availability by converting a component of our lumber shipments to breakbulk. Flood related rail and highway closures in BC delayed North American shipments in the last two months of 2021.

Adjusted EBITDA and operating income in 2021 included \$29.8 million of export tax expense, as compared to \$34.6 million in 2020. In 2021, we significantly increased lumber revenue on which duties were applicable. Our financial results benefitted from a reduction in cash duty deposit rates in late 2020 from 20.23% to 8.99%, and a stronger Canadian to US Dollar exchange rate. The cash deposit rate increased to 17.90% in December 2021 with the issuance of the DoC's final determination on assessed rates for 2019.

We recognized a \$3.3 million export duty tax recovery against export tax expense in 2021, as cash deposit rates exceeded assessed rates by 2.33%. In the comparative period we recognized a \$31.6 million export duty tax recovery, as cash deposit rates exceeded assessed rates by 11.86% and 11.27% for fiscal years 2017 and 2018. For further information on CV and AD see "*Risks and Uncertainties*".

Comparative results also included CEWS proceeds of \$11.6 million as an offset to cost of goods sold. CEWS helped reduce the negative financial impact of COVID-19 on our business, prevented temporary operating curtailments and employee layoffs, and offset some costs associated with enhanced health and safety protocols.

Selling and Administration Expense

Selling and administration expense was \$57.8 million in 2021 as compared to \$36.7 million last year. Record financial results and a 63% share price appreciation in 2021 resulted in incremental incentive and other compensation related expense of \$14.0 million. Other cost increases were realized in IT and Safety in respect of COVID protocols, and incremental legal fees in support of agreements detailed under *Indigenous relationships* below.

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

Finance Costs

Finance costs were \$1.9 million in 2021 as compared to \$5.9 million in 2020. Strong cash flows from operations and non-core asset sales were used to repay outstanding indebtedness, lowering the average outstanding debt balance as compared to the prior year.

Other Income (Expense)

We recognized other income of \$22.4 million in 2021, including a gain from the sale of the Orca Quarry assets, the Somass Division assets and other non-core assets. Other expense of \$5.2 million in 2020 included impairments of \$3.6 million on non-core lands and a \$0.2 million loss on asset dispositions partially offset by other income.

Income Taxes

We used our remaining non-capital Canadian tax loss carryforwards during the first quarter of 2021, which resulted in taxes payable for the tax year ending December 31, 2021. In addition, capital loss carryforwards were applied against taxable capital gains arising from non-core asset dispositions. Accordingly, current income tax expense of \$64.1 million and a deferred income tax recovery of \$1.7 million were recognized in net income in 2021. Income tax expense increased by \$47.8 million from 2020 as a result of record operating earnings.

Net Income

Record product pricing, strong operating performance and the successful leveraging of our flexible operating platform resulted in net income of \$202.8 million in 2021, as compared to net income of \$33.4 million in 2020. Net income in 2020 was impacted by COVID-19 market uncertainty, related incremental operating costs 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.

Indigenous Relationships

We respect the treaty and Aboriginal rights of Indigenous groups, and we are committed to open dialogue and meaningful actions in support of reconciliation.

We are actively investing time and resources in capacity building and fostering positive working relationships with Indigenous groups, with traditional territories within which Western operates, through information sharing, joint sustainable forest management planning, timber harvesting, reforestation practices, restoration initiatives and other mutually beneficial interests. These arrangements may include business-to-business service and supply contracts, combining tenure for joint forest management, job creation and training, and limited partnerships with shared governance and financial interests.

In collaboration with Indigenous groups, and as presented below, we have achieved a series of milestone agreements in 2021 that advance our mutually beneficial relationships and exemplify Western's ongoing actions to support reconciliation.

Integrated Resource Management Plan with Nanwakolas Council

On October 20, 2021, together with the Nanwakolas Council, we announced the completion of a letter of understanding to develop a joint planning and reconciliation protocol agreement; that will guide the co-development of an Integrated Resource Management Plan for collaborative, sustainable forest management in the traditional territories of the Nanwakolas Council member First Nations on central Vancouver Island, BC.

Nanwakolas Council represents K'ómoks, Tlowitsis, Wei Wai Kum and We Wai Kai First Nations. Several Western forest tenures overlap with Nanwakolas Council member First Nations' traditional territories, and the focus of this agreement is TFL 39 (Block 2). In recent years, we have engaged in several innovative projects together, including joint development and the ongoing implementation of the Nanwakolas Large Cultural Cedar Declaration and the 2020 Information Sharing Protocol.

On January 19, 2022, Western and the four member Nations of the Nanwakolas Council announced an agreement to work on a joint approach to managing forests through development of an Integrated Resource Management Plan for TFL 39 (Block 2). The agreed collaborative planning efforts are expected to integrate the Nations' perspectives, values, and interests with the intent of enhancing forest stewardship, creating socio-economic opportunities, and providing greater operating certainty.

Sale of Forest and Timber Licence Interests to Lil'wat Nation and Tsleil-Waututh Nation

On October 7, 2021, we completed the sale of our interests in timber licences and jointly held forest licences to third parties, including the Lil'wat Nation and Inlailawatash Limited Partnership, a Tsleil-Waututh Nation business.

These licence interests had been held by Western, under the management of 3rd parties, as the result of Western-predecessor company transactions to acquire and reassign operating rights.

Forest Landscape Plan Pilot with 'Namgis First Nation

On September 23, 2021, together with the 'Namgis First Nation, we announced the launch of the TFL 37 Forest Landscape Plan Pilot project to guide collaborative decision-making and for the joint development of an innovative and progressive plan to sustainably manage TFL 37.

The three forest areas covered by the plan include the area-based tenure managed by Western, a replaceable forest licence managed by a 'Namgis-owned corporation, and the operating area of the Danyas Limited Partnership, a successful forest partnership established by Namgis and Western in 2015.

This Landscape Level Plan is supported by the BC Government (“Province”) as a formal pilot project to inform amendments to the Province’s Forest and Range Practices Act as identified under the *Regulatory Environment* header below.

Integrated Resource Management Plan with Tla’amin Nation

On July 6, 2021, together with the Tla’amin Nation, we announced a Renewal Agreement and the planned development of a Tla’amin led, collaborative Integrated Resource Management Plan for Tla’amin treaty lands and Crown tenure areas, and the portion of Western’s TFL 39 (Block 1) located in Tla’amin territory. Completion of this values and science-based plan is expected to take up to two years.

The Renewal Agreement advances joint efforts that have been underway since the signing of a 2019 Memorandum of Understanding, supports continued exploration of innovative ideas to advance common interests related our respective forestry assets and interests in Tla’amin territory.

Quatsino First Nation Land Agreement

On June 21, 2021, we announced an agreement to sell private land near Coal Harbour, on northern Vancouver Island, BC, to a wholly owned limited partnership of the Quatsino First Nation. The land will be used for community housing and a Big House.

The land purchase and sale transaction is another positive milestone in a long-standing relationship of joint efforts. Most recently, involving the Province, we co-developed the September 2020 Memorandum of Understanding to create a framework to collaboration on sustainable forest management on northern Vancouver Island, BC. We also co-partner in Quatern Limited Partnership, a joint logging operation created in 2010 to facilitate collaborative forest management and advance economic reconciliation.

Tsawak-qin Forestry LP and Integrated Resource Management Plan with Huu-ay-aht First Nations

On May 3, 2021, Western completed the sale of an incremental 28% equity interest in TFLP to HVLP, a limited partnership beneficially owned by the HFN, for \$22.4 million. HVLP’s current equity interest in TFLP is 35%. Also in the first half of 2021, we began the co-development and TFLP implementation of an HFN-led Integrated Resource Management Plan that is anticipated to be completed in 2023. We have previously agreed to an option to sell a further 16% equity interest in TFLP to HVLP with an anticipated close in the second quarter of 2023, subject to closing conditions. We also have an agreement to sell up to an incremental 26% in TFLP to area First Nations and, alongside the HFN, we are now engaging those Nations.

Our growing relationship with HFN has resulted in a suite of other mutually beneficial agreements since 2017, including the sale of our former Sarita Dryland Sort assets, employment and training agreements, and the 2018 Reconciliation Protocol Agreement. The Western-HFN Reconciliation Protocol Agreement set the framework for a shared path to reconciliation and a joint vision for a safe and competitive forest sector in the Alberni Valley, and formed the foundation for the creation of TFLP.

On November 15, 2021, the TFL 44 Limited Partnership formally changed its name to Tsawak-qin Forestry Limited Partnership. The name change is intended to better reflect the shared values of the partnership, with Tsawak-qin meaning ‘we are one’ in Nuu-chah-nulth language.

Regulatory Environment

During 2020 and 2021, the Province introduced various policy initiatives and regulatory changes that impact the BC forest sector regulatory framework as part of a Coastal Revitalization Initiative and Interior Renewal Process, including: fibre recovery, lumber remanufacturing, old growth forest management and the exportation of logs.

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 necessary for road development and harvesting. The Company may manage risks associated with delays in the Province granting operating authorizations by fostering positive working relationships with the First Nations, as discussed above. 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; and by increasing harvest production from private timberlands.

Old-Growth Logging Deferral

On November 2, 2021, the Province announced its intention to work in partnership with First Nations on the proposed, temporary deferral of harvesting in 2.6 million hectares of BC forests. The proposed, temporary deferrals, if implemented, are subject to First Nations engagement. The Province has stated that final decisions on proposed, temporary deferral areas will be based on discussions between the Province and First Nations governments.

Western requires more specific information on the Province's proposed measures to meaningfully assess any potential impacts on the Company's business. Determination of potential impacts will be subject to further dialogue with the First Nations on whose territories the Company operates and their government-to-government discussions. Should the proposed measures impact Western's business, the Company will seek support from the Province for its workers and full compensation for investments.

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.

On June 9, 2021, the Province temporarily deferred old-growth logging in 2,000 hectares of forest in southwestern Vancouver Island, BC for a period of two years. The temporary 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.

TFLP, which is owned and managed by Western and the HFN, has no active or planned cutting permits in the portion of the 2,000-hectare old growth logging deferral area in TFL 44, and TFLP's forestry activity continues as planned.

On December 2, 2021, the HFN announced that they will be upholding their right to harvest in four percent of the proposed, temporary deferral area identified by the government's technical advisory panel ("TAP") in their traditional territory and TFL 44. The remaining 96 percent of the TAP proposed, temporary deferral area is already protected under existing conservation measures or not planned for harvesting in the next two years.

HFN's preliminary decision is supported by their assessment that 33 percent of the total productive forest area within their traditional territory and TFL 44 is old forest. HFN expects to make a final determination on proposed, temporary deferrals in early 2022 through further expert analysis. The preliminary decision is not expected to have significant short-term effects on planned operations within TFL 44.

On January 19, 2022, Western and four member Nations of the Nanwakolas Council announced an agreement to work on a joint approach to managing forests in TFL 39 (Block 2). This announcement followed an October 2021 Letter of Understanding between the parties, with an intent to complete a collaborative plan that addresses shared interests within the next two years. Among those agreed items was a temporary harvest deferral area of 1,068 hectares proposed by TAP, which is in addition to a pre-existing temporary harvest deferral of 1,506 hectares for previously agreed bi-lateral initiatives between the Nanwakolas Council and Western. These temporary deferral areas represent approximately 1% of the total area of TFL 39 (Block 2).

Forest and Range Practices Act Amendments

On October 20, 2021, the Province introduced Bill 23, the Forests Statutes Amendment Act, 2021, to improve the framework for stakeholder engagement in long-term forest planning. Amongst the amendments, that are expected to come into effect through future regulation, is the eventual replacement of forest stewardship plans with forest landscape plans. Landscape-level plans developed in collaboration with First Nations are intended to guide increased consideration of ecological and cultural values of the forests in BC. These proposed act amendments align with Western's increasing use of Integrated Resource Management Plans for the joint planning of long-term, sustainable forest management with First Nations.

Timber Tenure Reduction

Approximately 89% of Western's 5,914,000 cubic metre sustainable allowable annual cut ("AAC") is in the form of Tree Farm Licences ("TFL"). TFLs are granted for 25-year terms and are replaced by the Province every five to ten years with a new 25-year term.

In the first half of 2022, 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.

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 have approximately \$10 million in strategic capital projects currently 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 February 2021, the Company's Board of Directors reinstated a quarterly dividend of \$0.01 per common share, which had been suspended in response to the global economic uncertainty arising from COVID-19 and added financial requirements of resetting the business after the lengthy Strike. The Company's Board of Directors will continue to review our dividend on a quarterly basis.

Dividends of \$3.3 million and \$14.3 million were paid in the three and twelve months ending December 31, 2021, respectively.

Normal Course Issuer Bid

On August 5, 2021, the Company renewed its NCIB permitting the purchase and cancellation of up to 29,726,940 common shares beginning August 11, 2021, representing 10% of the public float outstanding as of August 5, 2021. 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.

In 2021, we repurchased and cancelled 47,702,569 common shares for \$96.9 million at an average price of \$2.03 per common share. No common shares were repurchased in 2020.

As at January 24, 2022, the Company had repurchased and cancelled the maximum 29,726,940 Common Shares permitted for purchase and cancellation under the current NCIB for \$60.7 million at an average price of \$2.04 per common share.

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 ROCE.

Continuing to guide our actions are the strategic initiatives below, with selected accomplishments in 2021:

Strengthen the Foundation

- Advancing our strategic partnerships with First Nations and continuing to reposition our coastal tenure assets. We completed the sale of an incremental 28% ownership interest in TFLP for \$22.4 million, to the HVLP.
- Achieving a series of milestone agreements focused on joint and collaborative planning of forestry activities with First Nations in whose traditional territories we operate. These agreements build upon Western's well-established, sustainable forestry practices by incorporating Indigenous values within planning and forestry activities.
- Confirming our net positive climate impact with the release of our latest Sustainability Report. This included the completion of our first full lifecycle carbon accounting, reaffirming the positive role Western's sustainable forest management practices and wood products have in fighting against climate change.
- Completing the sale of significant non-core assets for net cash proceeds of \$52.0 million in 2021, supporting the repositioning of our balance sheet. This includes the sale the Company's former Orca Quarry related assets and the Somass Division assets. Since 2014, the Company has realized net cash proceeds of \$94.5 million from other non-core asset sales.

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.
- Extending the maturity of our \$250 million credit facility to July 2025 to support our growth priorities. We also became the first North American publicly traded forestry company to transition to a sustainability-linked credit facility, linking our borrowing cost to the achievement of certain sustainability goals related to health and safety performance, increasing workforce diversity and advancing mutually beneficial Indigenous relationships.
- Growing our wholesale lumber shipments by 19% in 2021, as compared to 2020, despite challenging wholesale lumber market conditions. Our wholesale lumber business allows us to offer an expanded product line, making us more meaningful to our selected customers and further enhancing the viability and success of our coastal sawmills.

Explore Opportunities

- Advancing \$10 million in announced strategic capital projects to increase lumber remanufacturing capacity, which are expected to reduce costs and improve efficiency to ensure we remain globally competitive.
- Returns from our Columbia Vista division in Vancouver, Washington remain ahead of expectations.
- We continue to evaluate other opportunities to grow our specialty products business, including how we may participate in the increased use of mass timber building technologies, as well as capitalize on two-way trade opportunities with our strong customer relationships in Japan.

Market Outlook

Volatile global lumber market conditions and global logistics challenges have required a dynamic sales and marketing strategy. In 2021, we successfully levered our flexible operating platform, directing production to the highest margin product and market alternatives. As we look to 2022, the same combination of strong demand across our core markets, and regional production and logistics challenges have created margin opportunities for Western.

In North America, we expect high levels of new home construction and sound repair and remodeling fundamentals to drive product demand. We expect pricing to remain above trend levels for the foreseeable future as supply is likely to remain constrained due to a combination of reduced log availability and logistics challenges.

In Japan, relatively strong demand from new home construction and logistics constrained imported lumber supply should support pricing through the first half of the year.

In the fourth quarter of 2021, the North American cedar market returned to a more seasonal pattern after the 2020 COVID-19 related demand surge. As we enter 2022, cedar lumber demand is returning and pricing is expected to improve. For our Niche products, we anticipate that demand from the North American industrial timber market will remain strong while improved demand and pricing is expected for appearance timbers as we head into the spring.

Severe weather events limited domestic log harvest in the last half of 2021 and have reduced inventories to low levels impacting sawmill production. We expect domestic saw log prices to increase in the near-term due to limited supply, rising stumpage costs and higher demand driven by strong lumber markets.

The price for NBSK pulp in China has improved due to logistics constrained supply. Higher pulp prices should benefit residual chip pricing in the coming quarters. Pulp log prices are likely to remain flat due to limited market options and a lack of whole log chipping capacity.

The ongoing challenges related to COVID-19 and global logistics issues continue to create uncertainty in our business and could lead to pricing volatility and ongoing vessel, rail and trucking challenges. 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. 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 the use of 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 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 \$29.8 million of export duties on its lumber shipments into the US in 2021 and recognized an offsetting export tax recovery of \$3.3 million arising from the DoC's final determination on assessed rates for 2019. Export duty tax was comprised of CV and AD at a combined rate of 8.99% on all lumber Western sold into the US until November 30, 2021 and a combined rate of 17.90% effective December 1, 2020. On January 10, 2022, as a result of a ministerial error in its second administrative review, the DoC revised the published CV rate to 6.32% increasing the combined cash deposit rate to 17.91%. On January 31, 2022, the DoC released its preliminary determination for CV and AD rates for 2020 shipments at 11.64% resulting from its third administrative review. The DoC may revise these rates between the preliminary and the final determination, expected to be released on August 3, 2022. Cash deposits continue at the combined duty rate of 17.91% until the final determinations are published, after which the 2020 rate will apply.

At December 31, 2021, Western had \$151.8 million (USD \$120.1 million) of cash on deposit with the US Department of Treasury in respect of these softwood lumber duties, of which \$40.4 million (USD \$31.9 million) is recognized in the Company's balance sheet arising from rate determinations in 2017, 2018, and 2019.

Including wholesale lumber shipments, our sales to the US market represent approximately 41% of our total lumber revenue in 2021. 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 originating from Canada that are 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 Financial Measures

Reference is made in this press release to the following non-GAAP measures: Adjusted EBITDA, Adjusted EBITDA margin, Net debt to capitalization, total Liquidity and ROCE which 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. Refer also to Forward Looking Statements and Information for further descriptions of use of these non-GAAP measures. The following table provides a reconciliation of these non-GAAP measures to figures as reported in our audited annual consolidated financial statements:

(millions of Canadian dollars except where otherwise noted)

	Q4 2021	Q4 2020	Q3 2021	Annual 2021	Annual 2020	Annual 2019
Adjusted EBITDA						
Net income (loss)	\$ 28.5	\$ 34.4	\$ 42.2	\$ 202.8	\$ 33.4	\$ (46.7)
Add:						
Amortization	12.7	14.3	12.0	50.9	53.5	45.4
Changes in fair value of biological assets	0.2	1.2	0.8	3.7	2.4	2.3
Operating restructuring items	0.8	0.6	0.9	2.7	2.1	3.5
Other (income) expense ⁽¹⁾	(0.3)	6.2	(4.0)	(22.4)	5.0	2.9
Finance costs	0.2	(0.5)	0.4	1.9	5.9	7.8
Current income tax (recovery)	10.5	-	13.6	64.1	(0.1)	(13.0)
Deferred income tax (recovery)	(0.3)	15.1	0.4	(1.7)	14.7	(3.7)
Adjusted EBITDA	\$ 52.5	\$ 71.1	\$ 66.3	\$ 302.1	\$ 116.8	\$ (1.5)
Adjusted EBITDA margin						
Total revenue	\$ 327.9	\$ 318.9	\$ 352.9	\$ 1,417.7	\$ 964.9	\$ 807.7
Adjusted EBITDA	52.5	71.1	66.3	302.1	116.8	(1.5)
Adjusted EBITDA margin	16%	22%	19%	21%	12%	(0%)
				Dec. 31 2021	Dec. 31 2020	Sept. 30 2021
Net debt to capitalization						
Net debt (cash)						
Total debt				\$ -	\$ 71.9	\$ -
Bank indebtedness				-	0.2	-
Cash and cash equivalents				(130.0)	(2.9)	(143.1)
Net debt (cash)				\$ (130.0)	\$ 69.2	\$ (143.1)
Capitalization						
Net debt (cash)				\$ (130.0)	\$ 69.2	\$ (143.1)
Add: Total equity attributable to equity shareholders of the Company				612.1	504.5	620.6
Capitalization				\$ 482.1	\$ 573.7	\$ 477.5
Net debt to capitalization				-	12%	-
				Dec. 31 2021	Dec. 31 2020	Sept. 30 2021
Total liquidity						
Cash and cash equivalents				\$ 130.0	\$ 2.7	\$ 143.1
Available credit facility				250.0	250.0	250.0
Less:						
Drawings under the credit facility				-	(70.2)	-
Outstanding letters of credit				(8.6)	(4.2)	(8.7)
Total liquidity				\$ 371.4	\$ 178.3	\$ 384.4

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

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

(millions of Canadian dollars except where otherwise noted)

Return on Capital Employed ⁽¹⁾	2021	2020	2019
Trade and other receivables	\$ 57.4	\$ 66.8	\$ 23.4
Inventory	207.2	177.9	132.0
Prepaid expenses and other assets	16.4	16.1	14.7
Property, plant and equipment	343.2	383.3	414.9
Timber licences	100.3	105.0	109.2
Biological assets	49.1	53.6	56.0
Other assets	55.2	46.3	13.4
	<u>828.8</u>	<u>849.0</u>	<u>763.6</u>
Less:			
Duty receivable and related interest	40.4	36.7	3.6
Accounts payable and accrued liabilities	112.8	108.7	35.0
Current portion of lease liabilities	5.5	6.2	4.9
Current portion of reforestation obligation	9.9	8.1	8.7
Current portion of deferred revenue	2.0	2.0	2.0
	<u>170.6</u>	<u>161.7</u>	<u>54.2</u>
Net capital employed at December 31	658.2	687.3	709.4
Net capital employed at January 1	687.3	709.4	711.7
Average capital employed	\$ 672.8	\$ 698.4	\$ 710.6
Adjusted EBITDA divided by average capital employed	45%	17%	(0)%

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

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”, “commit”, “project”, “estimate”, “expect”, “anticipate”, “plan”, “forecast”, “intend”, “believe”, “seek”, “could”, “should”, “may”, “likely”, “continue”, “pursue” and similar references to future periods. Forward-looking statements in this MD&A 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 interests in Tsawak-qin Forestry Limited Partnership (formerly TFL 44 Limited Partnership) and in other potential business 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, the Company’s ability to export its products, cost and availability of shipping carrier capacity, competition and selling prices, international trade disputes, changes in foreign currency exchange rates, labour disputes and disruptions, natural disasters, the impact of climate change, relations with First Nations groups, First Nation’s claims and settlements, 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, information systems security, future developments in COVID-19 and other factors referenced under the “Risks and Uncertainties” section of our MD&A in our 2021 Annual Report dated February 16, 2022. 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 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, current assets to current liabilities and ROCE. 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. ROCE is defined as adjusted EBITDA as a proportion of average capital employed. Average capital employed is defined as the average balance over a year of total assets less cash and cash equivalents, income tax receivable, duty receivable and related interest, deferred income tax assets, accounts payable and accrued liabilities and the current portions of lease liabilities, reforestation obligation and deferred revenue. 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 1.0 billion board feet from seven sawmills and four remanufacturing facilities. The Company sources timber from its private lands, long-term licenses, First Nations arrangements, and market purchases. Western supplements its production through a wholesale program providing customers with a comprehensive range of specialty products.

TELECONFERENCE CALL NOTIFICATION:

Thursday, February 17, 2022 at 9:00 a.m. PST (12:00 p.m. EST)

To participate in the teleconference please dial 416-340-2217 or 1-800-952-5114 (passcode: 3462048#). This call will be taped, available one hour after the teleconference, and on replay until March 20, 2022 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: 1943458#).

For further information, please contact:
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