



Western Forest Products Inc.
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TSX: WEF

Western Announces Second Quarter 2022 Results

August 3, 2022 – Vancouver, British Columbia – Western Forest Products Inc. (TSX: WEF) (“Western” or the “Company”) reported net income of \$38.6 million and adjusted EBITDA of \$66.2 million in the second quarter of 2022. Strong Japan lumber demand and record specialty product pricing drove revenue growth, but earnings were reduced by increased stumpage expense, logistics constrained shipments, higher export tax, freight rates and operating costs. In addition, a significant decline in commodity lumber pricing through the quarter and weaker cedar markets led to increased inventory provisions.

Net income in the second quarter of 2022 was \$38.6 million (\$0.12 per diluted share) as compared to net income of \$38.0 million (\$0.11 per diluted share) for the first quarter of 2022, and net income of \$78.3 million (\$0.21 per diluted share) in the second quarter of 2021.

Highlights:

- Delivered second quarter adjusted EBITDA of \$66.2 million
- Confirmed approximately \$29 million in capital projects in coastal BC manufacturing operations
- Announced the pending US\$12.0 million glulam business asset acquisition from Calvert Company, Inc.
- Announced the renewal of a 10% normal course issuer bid
- Maintained liquidity of \$319.1 million to support growth strategy and balanced capital allocation

Western’s second quarter adjusted EBITDA was \$66.2 million, as compared to adjusted EBITDA of \$65.4 million in the first quarter of 2022, and adjusted EBITDA of \$120.4 million in the second quarter of 2021. Operating income prior to restructuring and other items was \$53.4 million, compared to income of \$52.2 million in the first quarter of 2022, and \$105.7 million of income reported in the second quarter of 2021.

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

	Q2 2022	Q2 2021	Q1 2022	YTD 2022	YTD 2021
Revenue	\$ 437.4	\$ 414.4	\$ 359.6	\$ 797.0	\$ 736.9
Export tax expense	14.7	10.8	11.5	26.2	19.0
Stumpage expense	34.9	15.0	18.8	53.7	24.2
Adjusted EBITDA	66.2	120.4	65.4	131.6	183.4
Adjusted EBITDA margin ⁽¹⁾	15%	29%	18%	17%	25%
Operating income prior to restructuring and other items	\$ 53.4	\$ 105.7	\$ 52.2	\$ 105.6	\$ 154.5
Net income	38.6	78.3	38.0	76.6	132.1
Earnings per share, diluted	0.12	0.21	0.11	0.23	0.35
Net cash (debt) ⁽²⁾ , end of period	84.3	97.7	74.9		
Liquidity ⁽¹⁾ , end of period	319.1	341.1	310.1		

“We continue to deliver strong results overcoming significant cost pressures and logistics challenges,” said Don Demens, President and Chief Executive Officer. “Recent capital announcements for our coastal manufacturing business and the addition of glulam to our specialty lumber portfolio are important steps forward in Western’s strategy to move up the product value chain and to improve shareholder returns.”

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

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

Summary of Second Quarter 2022 Results

Adjusted EBITDA for the second quarter of 2022 was \$66.2 million, as compared to \$120.4 million in the same period last year. Results in the comparative period were driven by record North American lumber pricing and margins. Net income in the second quarter of 2022 was \$38.6 million as compared to net income of \$78.3 million in the same quarter of 2021.

We grew revenues in the second quarter of 2022 by leveraging record specialty product pricing. Adjusted EBITDA in the second quarter of 2022 was impacted by incremental costs including \$19.9 million in additional stumpage expenses, \$13.5 million in inventory and silviculture provisions, rising log purchase pricing, and higher operating costs. In addition, we incurred an incremental \$4.3 million in freight expense and an incremental \$3.9 million in export taxes despite lower lumber shipments. Second quarter operating income prior to restructuring and other items was \$53.4 million in 2022, as compared to \$105.7 million in the same period last year.

Sales

Revenue grew by 6% in the second quarter of 2022 as compared to the same period last year, as we increased log shipments to capitalize on record log pricing and maintained lumber revenue despite lower sales volumes.

We delivered a stronger specialty lumber mix, which more than offset logistics-constrained lumber shipments and declining commodity lumber pricing through the quarter.

Lumber shipments decreased by 11% as compared to the same period last year, despite increased shipments to Japan. Logistics constraints and weaker demand limited lumber shipments. Lower activity in the repair and renovation market reduced demand for certain Cedar and Niche products. Shipments of Japan specialty products increased by 17% as compared to the second quarter last year, as we took advantage of strong demand and pricing.

Our average realized lumber price was a record \$1,786 per thousand board feet, an increase of 12% from the second quarter of 2021. Strong pricing across our specialty lumber products was offset by weaker pricing for commodity lumber, which had peaked in the comparative quarter of 2021. Lumber revenue also benefited from the 4% appreciation of the US to Canadian dollar exchange rate from the comparative period.

Log revenue was \$70.8 million in the second quarter of 2022, a 53% increase from the comparative period last year. Recent strong lumber market conditions and limited British Columbia ("BC") coastal log production combined to drive coastal log prices to record highs. We capitalized on market conditions by selling certain domestic log inventories which were in excess to our sawmill requirements, achieving a 31% average realized log price improvement and an 11% increase in sales volumes as compared to the second quarter last year.

By-product revenue was \$14.8 million, comparable to the second quarter last year. Increased chip price realizations resulting from a higher Northern Bleached Softwood Kraft ("NBSK") pulp price to China, were offset by reduced by-product shipments due to lower lumber production.

Lumber market weakness and significant declines in commodity lumber pricing in the second quarter of 2022 led to incremental inventory provisions of \$10.5 million as compared to the same period last year. We recognized \$11.5 million in inventory provisions in the second quarter of 2022, as compared to \$1.0 million expense in the same period last year.

Operations

Lumber production was 16% lower in the second quarter of 2022 as compared the same period last year, due to log supply related operating curtailments at certain large-log sawmills and the mix of production. We modified certain production plans to reduce the impacts of logistics constraints which limited access to North American markets.

We harvested 904,000 cubic metres of logs from our coastal operations in BC, as compared to 1,012,000 cubic metres in the second quarter last year. Harvest results were impacted by late spring snow conditions that extended into the second quarter of 2022, and harvest permitting delays. The comparative period included an incremental 96,000 cubic metres of accelerated private timberlands log harvest associated with the sale of our former Orca Quarry assets.

Stumpage expense increased by \$19.9 million as compared to the same period last year, despite reduced harvest volume. Recent record product pricing led to record coastal stumpage rates in the second quarter of 2022 on applicable BC crown land harvest.

Excluding stumpage, timberlands operating costs increased over the comparative period due to weather-related impacts early in the quarter, incremental road building, higher fuel costs and increased heli-logging. We increased road expenditures to address timber development deferred in past quarters due to weather. In addition, we recognized an incremental \$3.0 million in silviculture expense from same period last year, which was primarily the result of inflation on our reforestation provision.

To support sawmill production, we increased our BC coastal saw log purchases by 45% as compared to the second quarter of last year. Average purchased log price increased 23%, consistent with the increase in our log sales pricing over the same period.

Second quarter freight expense increased by \$4.3 million over the same period last year, despite a 11% decline in lumber shipments and the absence of log exports. Higher freight expenses were led by a 42% increase in container freight rates, increased use of breakbulk vessel shipments, and higher fuel costs. We continued to partly mitigate ongoing export logistics issues and limited container availability by converting a component of our lumber shipments to higher-cost breakbulk. Vessel and rail capacity improved towards the end of the quarter.

Adjusted EBITDA and operating income included \$14.7 million of countervailing duty (“CV”) and anti-dumping duty (“AD”) expense in the second quarter of 2022, as compared to \$10.8 million in the same period of 2021. The applicable export tax cash deposit rates increased from 8.99% to 17.91% over those periods. Higher export taxes were also influenced by the US to Canadian dollar exchange rate, offset by a 32% reduction in US-destined lumber shipments and lower lumber prices.

At June 30, 2022, we had \$182.0 million of cash on deposit with the US Department of Treasury in respect of softwood lumber duties, of which \$38.4 million was recognized as a long-term duty receivable.

Selling and Administration Expense

Second quarter selling and administration expense was \$9.7 million in 2022 as compared to \$16.7 million in the second quarter last year, attributable to lower incentive compensation expense resulting from reduced share price and earnings.

Other Income

We recognized other income of \$0.2 million as compared to income of \$1.4 million in the second quarter last year, resulting primarily from sales of equipment and other assets.

Finance Costs

Finance costs were \$0.3 million as compared to \$0.4 million in the second quarter last year. Interest expense was offset by slightly higher interest earned on our cash balances.

Income Taxes

Western recognized current income tax expense of \$14.9 million partially offset by a deferred income tax recovery of \$0.4 million in net income in the second quarter of 2022, a decrease of \$13.4 million over the second quarter of 2021. Lower tax expense was the result of reduced operating income.

Net Income

Net income for the second quarter of 2022 was \$38.6 million, as compared to net income of \$78.3 million for the same period last year. Compressed margins on lower shipment volumes, higher stumpage expense, freight rates, export taxes, and the impact of inventory provisions reduced second quarter net income as compared to the same period of 2021.

Summary of Year to Date 2022 Results

Adjusted EBITDA for the first six months of 2022 was \$131.6 million, as compared to \$183.4 million for the same period last year. Net income was \$76.6 million for the first six months of 2022, as compared to \$132.1 million for the same period last year. Improved specialty product price realizations in the first half of 2022 have been more than offset by lower commodity lumber pricing, logistics constrained shipments, and cost pressures including an incremental \$29.5 million stumpage expense, \$7.5 million from freight rate increases, and \$7.2 million for higher export taxes, as compared to the same period last year. Weaker lumber pricing at the end of the second quarter of 2022 led to increased inventory provisions of \$12.7 million net as compared to the same period last year.

Operating income prior to restructuring and other items was \$105.6 million, as compared to \$154.5 million in the same period last year.

Sales

We grew lumber revenue to \$665.7 million in the first half of 2022, 6% higher than last year, despite a 10% decline in lumber shipments. Revenue growth was led by our specialty products, the benefit of which was partly offset by global logistics constraints, limited production and sale of certain Niche products, and slowing demand for Cedar decking, trim and fencing products.

We leveraged our flexible operating platform to increase specialty products to 48% of shipments, from 45% in the first six months of last year, to capitalize on improved specialty product price realizations. Commodity lumber pricing declined year over year but remained above historic trend levels. Lumber revenue benefited from the 2% appreciation of the US to Canadian dollar exchange rate from the comparative period.

Log revenue was \$103.5 million in the first half of 2022, an increase of 30% from the same period last year as the result significantly improved domestic log pricing on lower sales volumes. Strong lumber markets and limited BC log production have driven coastal log prices higher, resulting in a 39% increase in average realized BC log prices.

Timberlands permitting delays and weather-related curtailments in the latter half of 2021 and early 2022 continued to limit coastal log harvest, and as a result we continue to direct all export-grade logs to our sawmills in support of lumber production.

By-product and other revenue remained flat in the first half of 2022 versus the first half of 2021. Higher price realizations were offset by reduced shipments due to lower lumber production compared to the same period last year.

Declining commodity lumber prices in the second quarter of 2022 was the primary driver for net incremental inventory provisions of \$12.7 million over the first half of 2022 as compared to the same period last year.

Operations

Lumber production in the first half of 2022 was 348 million board feet, 14% lower than the same period last year due to log supply related operating curtailments at certain sawmills and the mix of production.

Log production for the first half of 2022 was 1,651,000 cubic metres, a decrease of 3% from the same period last year. Logging operations in the first half of 2022 were partly impacted by late snow and permitting approval delays. The comparative period included an incremental 134,000 cubic metres of log harvest from private timberlands associated with the sale of the Orca Quarry assets.

Stumpage rates have increased by 110% as compared to the same period last year, with an incremental \$29.5 million in stumpage expensed in the first six months of 2022. Third quarter stumpage is expected to increase further before stumpage rates moderate as the result of the decline in most lumber product prices.

Timberlands operating costs were higher in the first half of 2022 versus the same period last year due to cost impacts of an extended snowpack in 2022, more road building activity, higher contractor and fuel costs, and increased heli-logging. Road building costs increased as we replenished developed timber inventories depleted from weather-related deferrals in prior periods and implemented alternative harvest plans to mitigate certain harvest permitting delays. We have experienced delays in obtaining certain timberlands harvest permits owing in part to First Nation capacity constraints. In addition, silviculture expense increased by \$3.9 million over the prior period on lower harvest volume, primarily due to higher silviculture costs.

We increased our BC coastal saw log purchases by 46% to 618,000 cubic metres, as compared to the same period last year to maximize fibre available for sawmill operations. The mix of purchases and higher log pricing drove a 23% increase in average log purchase price as compared to the same period last year.

Freight expense for the first half of 2022 was \$57.1 million, an increase of 15% as compared to same period last year despite a 10% decline in lumber shipments and the absence of log exports. Freight expense increased due to a 46% increase in realized container freight rates over the same period last year, the increased use of higher cost breakbulk shipments intended to partly mitigate limited container availability, and higher fuel costs.

Adjusted EBITDA and operating income in the first six months of 2022 included \$26.2 million of CV and AD expense, as compared to \$19.0 million in the same period of 2021. Export tax expense rose due to increases in the cash deposit rates from 8.99% to 17.91%, higher lumber prices and a 2% appreciation of the US to Canadian dollar exchange rate, partly mitigated by a 31% reduction in US-destined lumber shipment volumes compared to the first half of 2021.

Selling and Administration Expense

Selling and administration expense for the first half of 2022 was \$22.9 million as compared to \$31.0 million in the same period last year. Share price declines in the first half of 2022 resulted in a net recovery of \$7.7 million compared to the same period last year, in which the share price had increased by 65%.

Other Income

We recognized other income of \$0.1 million in the first half of 2022, as compared to \$18.1 million in the same period of 2021 attributable primarily to gains from non-core asset sales, including the Orca Quarry assets.

Finance Costs

Finance costs were \$0.7 million, compared to \$1.3 million in the first half of 2021, due to a reduction in our average outstanding debt balance and interest earned on our cash balance.

Income Taxes

Western's current income tax expense in the first half of 2022 was \$30.3 million, partly offset by a recovery on deferred income taxes of \$2.7 million. Tax expense decreased by \$10.6 million over the same period last year resulting primarily from the decrease in operating income. The first half of 2021 also benefitted from utilization of capital losses carried forward to offset other income earned on the sale of assets.

Net Income

Net income for the first half of 2022 was \$76.6 million, as compared to a net income of \$132.1 million for the same period last year. Lower net income was due to reduced margins on lower shipment volumes, significant inventory provisions, and higher stumpage, export tax and freight rates as compared to the same period of 2021.

President and Chief Executive Officer (“CEO”) Appointment

On July 28, 2022, Western announced the appointment of Steven Hofer as its President and CEO and member of the Company’s Board of Directors, effective September 7, 2022. Mr Hofer succeeds Don Demens, who will remain at Western in an advisory capacity until March 31, 2023 to ensure a seamless transition. Mr Demens will also step down from the Board effective September 7, 2022.

Business Acquisition

On July 19, 2022, we announced an agreement to acquire certain assets of Calvert Company, Inc. (“Calvert”) located in Washington State for US\$12.0 million, including inventory of US\$2.5 million, subject to a customary post-closing inventory adjustment.

Calvert is one of the most experienced glulam manufacturers in the US, with a history of more than 60 years in producing high quality glulam beams for industrial, commercial, and residential projects around the world. Calvert has manufacturing facilities in Washougal, Washington and Vancouver, Washington with a combined annual glulam capacity of approximately 35 million board feet on a two-shift basis.

The Calvert acquisition will help position Western to capitalize on the growing North American Mass Timber building market and is consistent with our strategy of moving up the product value chain and growing our portfolio of value-added products.

Mass Timber construction, which utilizes products such as glulam and cross laminated timber, represents a significant growth opportunity in North America. There are currently over 1,300 Mass Timber projects constructed, in progress or in the design phase in North America and third-party research estimates that there will be 4.4 billion board feet of lumber demand from Mass Timber construction by 2035. In addition, Mass Timber is a natural, renewable, and sustainable building material, with a lighter carbon footprint than other conventional construction materials.

The transaction will be financed with cash on hand and is expected to close in the third quarter of 2022, subject to satisfaction of customary closing conditions. As part of the transaction, we have created an engineered wood subsidiary focused on further growth opportunities through the Mass Timber value chain.

Capital Investments

On July 6, 2022, Western confirmed strategic capital investments of approximately \$29 million in our BC operations. These planned investments are part of our ongoing commitment to support value-added manufacturing in BC, growing our value-added wood products business, and continuing to improve Western’s long-term competitiveness. Each of these capital investments are expected to deliver reductions in operating costs, and collectively they represent an increase of \$13 million from the \$16 million discussed in the Company’s first quarter 2022 Management’s Discussion and Analysis.

Specifically, the investments include:

- \$12.3 million in a new continuous kiln at the Saltair sawmill in Ladysmith, BC, allowing for increased capacity for continuous drying of lumber, while reducing energy consumption. This investment follows the multi-phase strategic capital investment of over \$42 million undertaken to modernize the sawmill since 2013. Saltair sawmill is now the largest single-line sawmill on the coast of BC, and has three existing kilns on site for drying lumber.
- \$7.9 million at the Duke Point facility in Nanaimo, BC, to optimize the centralized planer facility with new equipment, including a machine stress rated (“MSR”) lumber grading machine. The MSR machine provides strict lumber grade quality control with known values for strength and stiffness for lumber utilized in engineered products, including roof trusses, glulam and mass timber. The Duke Point sawmill and planer have undergone a previous multi-phase strategic capital investment of over \$45 million since 2015 to modernize the facility.
- \$8.3 million in other capital investments in our BC operations, including new kiln control systems at the Saltair sawmill and our Value-Added Division in Chemainus, BC to increase the supply of kiln dried finished products for our customers.

Each of these investments will serve to generate additional value from Western's wood products and are expected to be completed by 2023.

These operational upgrades are an extension of our significant investment in value-added manufacturing on the coast of BC. Since 2013, Western has invested over \$450 million in our BC operating platform.

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, we have achieved a series of milestone agreements that advance our mutually beneficial relationships and exemplify Western's ongoing actions to support reconciliation. A summary of those agreements and related announcements occurring in 2022 is presented below.

Quatsino First Nation Bridging Agreement and Integrated Resource Management Plan

On July 7, 2022 Western and Quatsino First Nation ("Quatsino") entered a three-year Bridging Agreement that provides for joint forest operations in Quatsino traditional territory and allows for ongoing collaboration in territorial planning through an Integrated Resource Management Plan guided by Quatsino's Land Use Plan and values.

Over the three-year term of the Bridging Agreement, Quatsino will contribute timber from Quatsino managed tenures, and Western will contribute volume from TFL 6. These contributions will increase the scope of operations for the Quatern Limited Partnership over the term of the agreement.

The agreement allows for a period of increased stability for forestry workers and North Island communities, as a longer-term reconciliation arrangement is pursued.

Integrated Resource Management Plans in Tree Farm Licence 44

On February 24, 2022, Tsawak-qin Forestry Limited Partnership ("TFLP"; formerly TFL 44 Limited Partnership) announced an Indigenous-led IRMP process, working with First Nations on whose traditional territories Tree Farm Licence 44 ("TFL 44") is located. The TFL 44 IRMP is expected to use the latest data, science and technology to create a common vision and direction for government-to-government land and resource management decisions. This initiative is in addition to the ongoing development of an Huu-ay-aht First Nations ("HFN")-led IRMP that was announced in the first half of 2021 and is anticipated to be completed in 2023.

On April 14, 2022, TFLP confirmed its commitment to Indigenous stewardship and ongoing IRMP efforts, by expanding its industry-leading protection of tall trees, and forests around them, by lowering the height of trees to which retention standards apply.

Huumiis Ventures Limited Partnership ("HVLP"), a limited partnership beneficially owned by HFN, holds a 35% equity interest in TFLP and have agreed to acquire a further 16% equity interest with an anticipated closing in the second quarter of 2023, subject to certain closing conditions including approval by the BC Provincial Government and a further vote by the HFN People's Assembly. 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.

Service Contract Agreement with Tla'amin Nation in Tree Farm Licence 39 Block 1

On February 15, 2022, Western and Tla'amin Nation ("Tla'amin") announced a timber harvesting services contract to provide incremental harvest capacity in Tree Farm Licence 39 Block 1 ("TFL 39 Block 1"), through Thichum Forest Products LP, a company beneficially owned by Tla'amin.

The contract supports the ongoing relationship between Western and Tla'amin and builds on the Renewal Agreement signed in July 2021 by demonstrating progress in advancing innovative and mutually beneficial activities in the Tla'amin Territory. This initiative is in addition to the planned development of a two-year, values and science-based, Tla'amin led, collaborative Territory Forest Resource 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.

Integrated Resource Management Plan with Nanwakolas Council in Tree Farm Licence 39 Block 2

On January 19, 2022, Western and the Nanwakolas Council, representing Tlowitsis, K'ómoks, Wei Wai Kum and We Wai Kai First Nations, announced an agreement to develop an Indigenous-led IRMP for managing forests in Tree Farm Licence ("TFL 39 Block 2") over the next two years.

In recent years, we have engaged in several innovative projects together with the Nanwakolas Council, including joint development and the ongoing implementation of the Nanwakolas Large Cultural Cedar Declaration and the 2020 Information Sharing Protocol.

Regulatory Environment

In recent years, the Province has 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 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.

On November 3, 2021, Tla'amin announced that the proposed, temporary deferral area identified by the Province's Technical Advisory Panel ("TAP") in Tla'amin territory would be addressed through the ongoing Tla'amin-led IRMP process. Western and Tla'amin initiated the development of a collaborative IRMP in July 2021 for Tla'amin territory, including a portion of TFL 39 Block 1, expected to take up to two years to complete.

On December 2, 2021, the HFN announced that they will be upholding their right to harvest in four percent of the TAP proposed, temporary deferral area identified in their territory and TFL 44. The remaining 96% 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 32% of the total productive forest area within their traditional territory and TFL 44 is old forest. 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 N̓n̓w̓k̓o̓l̓as Council announced an agreement to work on a joint approach to managing forests in TFL 39 Block 2. 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 N̓n̓w̓k̓o̓l̓as Council and Western. These temporary deferral areas represent approximately 1% of the total area of TFL 39 Block 2.

On February 23, 2022, 'Namgis announced its decision to waive the TAP proposed, temporary deferral area in 'Namgis Territory, and continue work with Western on the development of a draft forest landscape plan. While that planning process continues, and in combination with collaborative re-design and expansion of existing forestry reserves, 'Namgis and Western have deferred harvest activity in approximately 30,700 hectares of Tree Farm Licence 37. The draft forest landscape plan is anticipated to be completed by the end of 2022.

Western continues to work collaboratively with First Nations, on whose territories the Company operates, through information sharing and capacity funding to assess any potential impacts on the Company's business. Determination of potential impacts is subject to further dialogue with the First Nations and the outcomes of 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.

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.

Fibre Recovery Zones

On April 1, 2019, the Province announced the creation of fibre recovery zones as part of the Province's Coast Forest Sector Revitalization Initiative. Fibre recovery zones were intended to increase the supply of residual fibre from primary harvesting for secondary users.

This initiative prescribes that primary harvesters conducting operations within a fibre recovery zone will pay a multiple of the stumpage-based waste rate for applicable volumes of avoidable waste left on the harvest block, with exemptions for Cedar species and heli-logging. Effective August 1, 2022, the waste rate multiple increases from 1 to 3, with application to harvest blocks in which new harvest commences after the effective date. Certain allowances apply to reduce the effective impact to net stumpage expenses, and we continue to evaluate the potential impact to our business.

We continue to engage with the Province and the primary coastal pulp producer to ensure that the desired outcome of the policy, less fibre waste and more fibre for domestic manufacturing and pulp production, is met without the unintended consequences of higher costs and less harvest volume for timberland operators.

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 replaceable in nature, under the *Forest Act* requiring that the Province offer a new 25-year term replacement TFL every five to ten years.

In the second 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 17% or approximately 125,400 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.

COVID-19

Western is committed to the health and safety of our employees, contractors and the communities where we operate. From the onset of the pandemic, Western has been committed to following the public health guidance in shaping our response to help mitigate the risk of COVID-19 transmission. To help mitigate the spread of COVID-19, strict health and safety protocols were implemented across our business based on guidance from health officials and experts, and in compliance with regulatory orders and standards.

Public health guidance evolved in all of our operating environments in 2022. Effective March 12, 2022, Washington State fully reopened, thereby eliminating regulatory requirements for COVID specific health and safety rules. Effective April 9, 2022, BC's Public Health Officer lifted all COVID-19 restrictions. In keeping with the updated public health guidance, and our ongoing commitment to health and safety, Western has transitioned from its Exposure Control Plan and COVID safety plans to a permanent Communicable Disease Prevention Plan. This transition included rescinding the Company's travel restrictions, capacity limits and proof of vaccination requirements, but kept in place elements such as handwashing and other practical ways to mitigate the risk of the spread of any communicable disease in our operations.

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

Dividend and Capital Allocation

We remain committed to a balanced approach to capital allocation. To return capital to shareholders, we pay a regular quarterly dividend and complement our dividend program with strategic repurchases of common shares.

We will continue to evaluate opportunities to invest strategic and discretionary capital in jurisdictions and product lines 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 product line initiatives, as well as add value to our products. We currently have approximately \$29 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 we may deem relevant.

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. The Company's Board of Directors will continue to review our dividend on a quarterly basis.

On May 4, 2022, we increased our quarterly dividend from \$0.01 per common share to \$0.0125 per common share. Dividends of \$4.0 million and \$7.3 million were paid in the three and six months ending June 30, 2022, respectively.

Normal Course Issuer Bid ("NCIB")

On August 3, 2022, the Company renewed its NCIB permitting the purchase and cancellation of up to 27,420,905 common shares, representing 10% of the public float outstanding as of August 3, 2022. The renewed NCIB will commence on August 11, 2022 and end no later than August 10, 2023. The Company also entered into an automatic share purchase plan with a 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.

Western purchased and cancelled the maximum 29,726,940 common shares permitted under its former NCIB, that was effective August 11, 2021, for \$60.7 million at an average price of \$2.04 per common share. The company fully completed the former NCIB, resulting in a 10% reduction to the public float of common shares outstanding at August 5, 2021.

During the first six months ended June 30, 2022, we repurchased and cancelled 3,379,027 common shares for \$7.3 million at an average price of \$2.17 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; 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.

Market Outlook

Lumber markets are being impacted by uncertainty caused by rising interest rates and the risk of a recession. We expect North American commodity lumber pricing to remain muted until economic conditions stabilize and borrowing rates moderate. Supply reductions in the BC Interior, and lean inventory in the logistics-constrained supply chain are expected to limit significant downside pricing risks.

We believe that strong North American housing market fundamentals will support lumber demand and pricing, above trend levels in the mid-term. An aging housing stock, a housing deficit stemming from years of underbuilding, the influence of work-from-home arrangements on the repair and renovation segment, and the growth of mass timber construction are expected to continue to drive demand for lumber.

In the near-term, pricing for our Cedar timbers and appearance products is expected to remain strong, while demand for our Cedar decking, trim and fencing products remains muted. We are reducing production volumes for these products to manage market inventories.

Demand and pricing for industrial products in the Niche segment remain strong, this includes timbers for the oil and gas sector, and cross arms for the utilities market.

Our Japan specialty products have performed exceptionally well over the last year. A weaker yen may challenge price realizations, and in-market inventory levels are likely to limit sales volumes in the near-term.

We expect sawlog markets to remain strong due to a combination of reduced supply and strong demand. We expect pulp log pricing to continue to trade in a narrow band due to limited market competition. Sawmill residual chip pricing is expected to remain strong supported by higher Northern Softwood Bleach Kraft pulp pricing in China.

Rising inflation has begun to impact our business, and we anticipate that cost pressures and market volatility may continue until inflation returns to a more normalized range. To date we have been able to partly mitigate these cost impacts through higher pricing for our products, cost mitigation strategies and certain capital projects. We will continue to evaluate the market supply demand dynamics and seek to manage the impact of high inflation on our business and market supply and demand.

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.

Western expensed \$26.2 million of export duties at a combined duty rate of 17.91% on its lumber shipments into the US in the first half of 2022, as compared to \$19.0 million at a duty rate of 8.99% in the same period last year. The effect of higher duty rates, significantly improved lumber pricing and 2% appreciation of the US to Canadian dollar exchange rate more than offset a 31% decline in the Company's US-destined lumber shipment volumes over those periods.

As the Department of Commerce ("DoC") completes its administrative review ("AR") of a shipment year, final rates are published in the federal register and a revised cash deposit rate is established until publication of final rates of the next AR. Finalization of CV and AD rates and other DoC corrections for Canadian lumber shipments to the US in 2017 through 2019 resulted in an overpayment of export taxes of \$38.4 million (US\$29.6 million), which Western recorded as an export tax recovery in prior years together with a long-term duty receivable on which it accrues interest.

On January 31, 2022, the DoC released its preliminary determination for CV and AD rates resulting from its third AR of CV and AD rates for shipments in 2020, indicating a combined rate of 11.64%. The DoC may revise these rates between the preliminary and the final determination, expected to be released shortly after August 3, 2022. Cash deposits continue at the combined duty rate of 17.91%, established in the AR for 2019 lumber shipments, until the final determinations for 2020 are published, after which the new rates will apply.

On March 9, 2022, the DoC initiated its fourth AR of CV and AD rates for shipments for 2021.

At June 30, 2022, Western had \$182.0 million (US\$141.4 million) of cash on deposit with the US Department of Treasury in respect of these softwood lumber duties, of which \$38.4 million (US\$29.6 million) is recognized in the Company's balance sheet arising from final rate determinations for shipments in 2017 through 2019.

Including wholesale lumber shipments, our lumber shipments from Canada to the US market represent approximately 41% of our total lumber revenue in the second quarter of 2022, as compared to 45% in the same period last year and 39% in fiscal 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 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, and total Liquidity 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 unaudited condensed consolidated financial statements:

(millions of Canadian dollars except where otherwise noted)

	Q2 2022	Q2 2021	Q1 2022	YTD 2022	YTD 2021
Adjusted EBITDA					
Net income	\$ 38.6	\$ 78.3	\$ 38.0	\$ 76.6	\$ 132.1
Add:					
Amortization	12.8	13.3	12.7	25.5	26.2
Changes in fair value of biological assets	-	1.5	0.5	0.5	2.7
Operating restructuring expense	0.2	0.5	0.6	0.8	1.0
Other (income) expense ⁽¹⁾	(0.2)	(1.4)	0.1	(0.1)	(18.1)
Finance costs	0.3	0.4	0.4	0.7	1.3
Current income tax	14.9	31.2	15.4	30.3	40.0
Deferred income tax (recovery)	(0.4)	(3.3)	(2.3)	(2.7)	(1.8)
Adjusted EBITDA	\$ 66.2	\$ 120.4	\$ 65.4	\$ 131.6	\$ 183.4
Adjusted EBITDA margin					
Total revenue	\$ 437.4	\$ 414.4	\$ 359.6	\$ 797.0	\$ 736.9
Adjusted EBITDA	66.2	120.4	65.4	131.6	183.4
Adjusted EBITDA margin	15%	29%	18%	17%	25%
Net debt to capitalization					
Net debt					
Total debt	\$ -	\$ 1.9	\$ -		
Cash and cash equivalents	(84.3)	(99.6)	(74.9)		
Net debt (cash)	\$ (84.3)	\$ (97.7)	\$ (74.9)		
Capitalization					
Net debt (cash)	\$ (84.3)	\$ (97.7)	\$ (74.9)		
Add: equity attributable to equity shareholders of the Company	677.4	611.5	640.9		
Capitalization	\$ 593.1	\$ 513.8	\$ 566.0		
Net debt to capitalization	-	-	-		
Total liquidity					
Cash and cash equivalents	\$ 84.3	\$ 99.6	\$ 74.9		
Available credit facility	250.0	250.0	250.0		
Less outstanding letters of credit	(15.2)	(8.5)	(14.8)		
Total liquidity	\$ 319.1	\$ 341.1	\$ 310.1		

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

(1) Other (income) expense, net of changes in fair market value less cost to sell of biological 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”, “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 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 interests in Tsawak-qin Forestry 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 including inflation, 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 and sanctions, changes in foreign currency exchange rates, labour disputes and disruptions, natural disasters, the impact of climate change, relations with First Nations groups, First Nations’ 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 income (expense) plus amortization of plant, 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, 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 1.0 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, August 4, 2022 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: 7265917#). This call will be taped, available one hour after the teleconference, and on replay until September 4, 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: 7954287#).

For further information, please contact:
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