



Western Forest Products Inc.
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FOR IMMEDIATE RELEASE

TSX: WEF

Western Announces First Quarter 2023 Results

May 3, 2023 – Vancouver, British Columbia – Western Forest Products Inc. (TSX: WEF) (“Western” or the “Company”) reported a net loss of \$17.7 million in the first quarter of 2023, as compared to a net loss of \$21.4 million in the fourth quarter of 2022, and net income of \$38.0 million in the first quarter of 2022. Results in the first quarter of 2023 reflect more challenging macroeconomic conditions, resulting in lower lumber prices and reduced demand compared to the same period last year.

Adjusted EBITDA was negative \$5.0 million in the first quarter of 2023, as compared to Adjusted EBITDA of negative \$11.9 million in the fourth quarter of 2022, and adjusted EBITDA of \$65.4 million in the first quarter of 2022.

Operating loss prior to restructuring and other items was \$18.1 million in first quarter of 2023, as compared to income of \$52.2 million in the first quarter of 2022. The first quarter of 2023 included \$5.2 million in restructuring costs primarily related to our Alberni Pacific Division (“APD”).

Highlights:

- Advanced BC Coastal strategic investments at our Saltair sawmill and Duke Point facility
- Progressed integrated resource management and forest landscape planning initiatives with First Nations
- Engineered wood products business continues to perform to expectations
- Returned \$4.0 million to shareholders through dividends
- Maintained liquidity of \$205.4 million to support our strategic priorities and balanced capital allocation

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

| | Q1 2023 | Q1 2022 | Q4 2022 |
|--|--------------------|--------------------|--------------------|
| Revenue | \$ 263.8 | \$ 359.6 | \$ 291.0 |
| Export tax expense | 4.7 | 11.5 | 4.7 |
| Stumpage expense | 15.5 | 18.8 | 27.9 |
| Adjusted EBITDA ⁽¹⁾ | (5.0) | 65.4 | (11.9) |
| Adjusted EBITDA margin ⁽¹⁾ | (2%) | 18% | (4%) |
| Operating income (loss) prior to restructuring and other items | \$ (18.1) | \$ 52.2 | \$ (23.6) |
| Net income (loss) | (17.7) | 38.0 | (21.4) |
| Earnings (loss) per share, diluted | (0.05) | 0.11 | (0.07) |
| Net debt (cash) ⁽²⁾ , end of period | 24.6 | (74.9) | (15.8) |
| Liquidity ⁽¹⁾ , end of period | 205.4 | 310.1 | 249.8 |

“Our first quarter results reflect a challenging global market environment driving lower demand and pricing across all business segments, though we did see some increased stability building through the quarter,” said Western’s President and CEO Steven Hofer. “Despite the more challenging environment, we continued to advance operational improvements in the first quarter to best position the company for future success. This included renewing our focus on solidifying key customer relationships and improving on-time delivery performance and reliability. As a company, we are focused on maintaining a strong balance sheet and executing on operational plans and our overall strategy to drive value and margin for every log harvested. Capital programs at our Duke Point and Saltair facilities progressed well through the first quarter, and are important initiatives to move our products further up the value chain.”

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

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

Summary of First Quarter 2023 Results

We reported Adjusted EBITDA of negative \$5.0 million in the first quarter of 2023, as compared to Adjusted EBITDA of \$65.4 million in the same period last year. Results in the first quarter of 2023 reflect more challenging macroeconomic conditions, resulting in lower lumber prices and reduced demand compared to the same period last year.

Net loss was \$17.7 million in the first quarter of 2023, as compared to net income of \$38.0 million in the same period last year. Operating loss prior to restructuring and other items was \$18.1 million in first quarter of 2023, as compared to income of \$52.2 million in the same period last year. The first quarter of 2023 included \$5.2 million in restructuring costs primarily related to APD.

Sales

Lumber revenue was \$211.0 million in the first quarter of 2023 as compared to \$313.9 million in the same period last year. The 33% decline was due to lower lumber shipment volumes, lower average lumber prices and a weaker sales mix, slightly offset by a stronger US Dollar (“USD”) to Canadian Dollar (“CAD”) exchange rate.

Specialty lumber shipments represented 40% of total lumber shipment volumes in the first quarter of 2023, as compared to 51% in the same period last year. Cedar lumber shipment volumes were down 35% compared to the same period last year due to more cautious buyer activity and a slower start to the spring building season. Japan lumber shipment volumes were down 53% compared to the same period last year due to increased levels of supply from domestic manufacturing, Europe and Russia.

Our average realized lumber price was \$1,241 per thousand board feet in the first quarter of 2023, as compared to \$1,688 per thousand board feet in the same period last year. The decrease of 26% was due to a weaker lumber sales mix and lower lumber prices, partially offset by a stronger USD to CAD exchange rate.

Log revenue was \$38.6 million in the first quarter of 2023, as compared to \$32.7 million in the same period last year. The increase of 18% was due to higher log sales to balance log inventories to lumber market conditions and fibre requirements of our manufacturing facilities, partially offset by lower average domestic log prices.

By-products and other revenue were \$14.2 million, as compared to \$13.0 million in the same period last year. The increase of 9% was due to higher revenue from harvesting services provided to third parties and product mix, partially offset by lower chip volumes.

Operations

Lumber production was 162 million board feet in the first quarter of 2023, as compared to 175 million board feet in the same period last year. We took market-related curtailments at several of our BC sawmills at the beginning of January to match lumber production to market conditions and manage inventory levels.

We harvested 621,000 cubic metres of logs from our BC coastal operations in the first quarter of 2023, as compared to 748,000 cubic metres in the same period last year, to match harvest volumes to market conditions. In the first quarter of 2022 we capitalized on good harvesting conditions to rebuild log inventory.

Timberlands operating costs per cubic metre increased 4% over the same period last year due to lower harvest volumes and general inflationary impacts on costs. Average stumpage per cubic metre in the first quarter of 2023 was generally flat compared to the same period last year. Average stumpage per cubic metre in the first quarter of 2023 was 39% lower compared to the fourth quarter of 2022.

BC Coastal sawlog purchases were 192,000 cubic metres in the first quarter of 2023, as compared to 290,000 cubic metres in the same period last year. We managed sawlog purchases to match fibre requirements at our BC manufacturing facilities.

Freight expense was \$22.6 million in the first quarter of 2023 as compared to \$26.0 million in the same period last year. The decrease of 13% was due to lower lumber and export shipments, partially offset by higher rail and trucking rates. In addition, lack of container availability in the comparative period necessitated the use of higher cost breakbulk vessels.

Adjusted EBITDA and operating income included \$4.7 million of countervailing duty (“CV”) and anti-dumping duty (“AD”) expense in the first quarter of 2023, as compared to \$11.5 million in the same period of 2022. Export tax expense declined due to lower duty rates, lumber prices and US-destined lumber shipment volumes.

Corporate and Other

Selling and administration expense was \$12.0 million in the first quarter of 2023 as compared to \$13.2 million in the same period last year. The decrease was primarily due to reductions in incentive-based compensation due to lower earnings and declines in the Company’s share price.

Restructuring costs were \$5.2 million in the first quarter of 2023 and consisted primarily of retirement bridging costs for workers of APD. The \$0.6 million in restructuring costs in the first quarter of 2022 related primarily to closure costs of our Somass Division.

Other expense was \$0.1 million in the first quarter of 2023 as compared to \$0.1 million in the same period last year. The first quarter of 2022 included a \$1.4 million gain from the sale of the remaining non-core assets at our Somass operation, offset by foreign exchange losses and other items.

Finance costs were \$0.2 million in the first quarter of 2023 as compared to \$0.4 million in the same period last year. Interest revenue from the export duty receivable was partially offset by interest expense on higher borrowings in the first quarter of 2023.

Income Taxes

Income tax recoveries were \$5.9 million on a net loss before tax of \$23.6 million in the first quarter of 2023, as compared to an expense of \$13.1 million on income before tax of \$51.1 million in the same period last year. The effective tax rate of 25% was relatively unchanged quarter over quarter.

Net Income (Loss)

Net loss was \$17.7 million in the first quarter of 2023, as compared to net income of \$38.0 million for the same period last year. More challenging macroeconomic conditions resulted in lower lumber demand and prices and impacted results year over year.

Alberni Pacific Division

In January 2023, the Company announced it would not restart its APD facility in its current configuration and established a multi-party working group. The working group, which included representatives from Western, the United Steelworkers union (“USW”), Indigenous partners and contractually-aligned business, had a mandate to explore potential viable industrial manufacturing solutions for the APD facility over a 90 day period.

In February 2023, Western partnered with the Government of British Columbia (the “Province”) and the USW to offer voluntary severance and a bridging to retirement program for APD employees over age 55, with 60 eligible employees opting into the program. Western has recognized \$5.0 million in restructuring costs in first quarter of 2023 related to APD.

In April 2023, the Company announced it concluded the 90-day working group process and had commenced negotiations and due diligence processes related to proposals received.

The mill was curtailed at various times in 2022 due to a combination of market demand and log availability and did not operate in the first quarter of 2023. The Company did not recognize an impairment in respect of the APD assets as at March 31, 2023 as the estimated fair value of the assets is in excess of the carrying value.

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.

Integrated Resource Management/Forest Landscape Planning Initiatives

Work continues on several Nation-led integrated resource management planning initiatives across five of the Tree Farm Licence (“TFL”) areas where Western operates. These include:

- The TFL 37 Forest Landscape Plan pilot project sponsored by 'N̄amgis First Nation and Western, the most advanced of four ongoing Forest Landscape Plan pilot projects being developed across the province and sponsored by the Office of the Chief Forester of British Columbia.
- Ongoing development of an Integrated Resource Management Plan for TFL 39 (Block 2) with N̄anwaḱolas Council, representing four member Nations, Wei Wai Kum, We Wai Kai, K'ómoks and Tlowitsis First Nations.
- Supporting Tla'amin Nation in the development of the Tla'amin Territory Forest Resource Plan, the plan area of which includes TFL 39 (Block 1).
- Supporting Huu-ay-aht First Nations development of the Hišuk ma ḱawak Integrated Resource Management Plan for the Huu-ay-aht Territory, including a portion of Cawak ḱqin Forestry Limited Partnership's TFL 44. Development of an Integrated Resource Management Plan for TFL 44 will be initiated this year after pausing the process announced in early 2022 to allow time for other Nation-led processes in the area to progress.
- Ongoing development of an Integrated Resource Management Plan for the portion of TFL 6 located in Quatsino's Territory with Quatsino First Nation.

Regulatory Environment

Since 2020, the Province introduced various policy initiatives and regulatory changes that impact the BC forest sector, including: fibre recovery, lumber remanufacturing, old growth forest management and the exportation of logs.

In February 2023, the Province announced eight new regional Forest Landscape Planning (“FLP”) tables throughout BC with the participation of approximately 50 First Nations. The Province's stated objective of these FLP tables are to provide greater clarity around the long-term, sustainable harvesting activities in the areas.

Dividend and Capital Allocation

We remain committed to a balanced approach to capital allocation. We will continue to evaluate opportunities to invest strategic and discretionary capital in jurisdictions that create the opportunity to grow long-term shareholder value.

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

Dividends of \$4.0 million were paid in the first quarter of 2023, as compared to \$3.3 million in the same period last year.

Normal Course Issuer Bid (“NCIB”)

No shares were purchased under our NCIB in the first quarter of 2023.

Strategy and Outlook

Western's long-term business objective is to create and grow shareholder value by building a sustainable, margin-focused specialty products business of scale to compete successfully in global markets.

Market Outlook

Near-term we expect lumber markets to remain volatile, as consumers adjust to higher interest rates and macroeconomic conditions. Temporary and permanent lumber production curtailments are helping to bring supply and demand back into balance. We are seeing some positive indications of demand and pricing improving in certain lumber segments, but overall lumber demand and prices remain below historical levels. We plan to continue to match production to market demand.

Demand and prices for Cedar timber and premium appearance products are expected to remain stable, while Cedar decking, trim and fencing products continue to remain weaker. Japan specialty lumber prices are expected to stabilize and demand should benefit as channel inventories rebalance. Demand for our Industrial lumber products will be product line specific but are expected to remain stable. North American demand and prices for our commodity products are expected to remain volatile.

We expect sawlog markets to follow conditions in the lumber markets, while residual chip pricing is expected to decline due to weaker northern bleached softwood kraft ("NSBK") prices to China.

Long-term we believe that housing market fundamentals and growth in mass timber construction will drive demand for lumber and specialty building products. We remain excited about the long-term growth opportunity for mass timber building in North America and the role and contribution wood products have to play in a low carbon world.

Non-GAAP Financial Measures

Reference is made in this news 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. 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)

| | Q1 2023 | Q4 2022 | Q1 2022 |
|--|-------------------------|-------------------------|-------------------------|
| Adjusted EBITDA | | | |
| Net income (loss) | \$ (17.7) | \$ (21.4) | \$ 38.0 |
| Add: | | | |
| Amortization | 13.1 | 12.0 | 12.7 |
| Changes in fair value of biological assets | - | (0.2) | 0.5 |
| Operating restructuring items | 5.2 | 3.9 | 0.6 |
| Other expense | 0.1 | 2.0 | 0.1 |
| Finance costs (income) | 0.2 | (0.1) | 0.4 |
| Income tax expense (recovery) | (5.9) | (8.0) | 13.1 |
| Adjusted EBITDA | \$ (5.0) | \$ (11.9) | \$ 65.4 |
| Adjusted EBITDA margin | | | |
| Total revenue | \$ 263.8 | \$ 291.0 | \$ 359.6 |
| Adjusted EBITDA | (5.0) | (11.9) | 65.4 |
| Adjusted EBITDA margin | (2%) | (4%) | 18% |
| | Mar. 31 2023 | Dec. 31 2022 | Mar. 31 2022 |
| Net debt to capitalization | | | |
| Net debt | | | |
| Total debt | \$ 25.9 | \$ - | \$ - |
| Bank indebtedness | 1.0 | - | - |
| Cash and cash equivalents | (2.3) | (15.8) | (74.9) |
| Net debt (cash) | \$ 24.6 | \$ (15.8) | \$ (74.9) |
| Capitalization | | | |
| Net debt (cash) | \$ 24.6 | \$ (15.8) | \$ (74.9) |
| Total equity attributable to equity shareholders of the Company | 626.5 | 647.2 | 640.9 |
| Capitalization | \$ 651.1 | \$ 631.4 | \$ 566.0 |
| Net debt to capitalization | 4% | - | - |
| | Mar. 31 2023 | Dec. 31 2022 | Mar. 31 2022 |
| Total liquidity | | | |
| Cash and cash equivalents | \$ 2.3 | \$ 15.8 | \$ 74.9 |
| Available credit facility | 250.0 | 250.0 | 250.0 |
| Bank indebtedness | (1.0) | - | - |
| Total debt | (25.9) | - | - |
| Outstanding letters of credit | (20.0) | (16.0) | (14.8) |
| Total liquidity | \$ 205.4 | \$ 249.8 | \$ 310.1 |

Figures in the table above may not equal or sum to figures presented 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”, “target”, “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, production, wholesale, operational and capital allocation plans, investments and strategies, including but not limited to payment of a dividend or repurchase of shares; fibre availability and regulatory developments; changes to stumpage rates and the expected timing thereof; the impact of COVID-19; the execution of our sales and marketing strategy; the development and completion of integrated resource management plans or forest landscape plan pilots by First Nations; the potential for viable industrial manufacturing solutions for the APD facility; and the expected timing and cost of completion of the Company’s announced strategic investments. 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, ability to recruit workers, 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 relating to COVID-19 and other factors referenced under the “Risks and Uncertainties” section of our MD&A in our 2022 Annual Report dated February 16, 2023. 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 Earnings Before Interest, Tax, Depreciation and Amortization (“Adjusted EBITDA”). Adjusted EBITDA is defined as operating income prior to operating restructuring items and other income (expense) plus amortization of plant, equipment, right of use and timber licence 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 in the same manner, Adjusted EBITDA and Adjusted EBITDA margin 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, and net debt to capitalization. Net debt is defined as long-term debt and bank indebtedness 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. 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, but are meaningful in that they indicate the Company’s ability to meet its obligations on an ongoing basis, and indicate whether the Company is more or less leveraged than in the past.

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, as well as operates four remanufacturing facilities and two glulam manufacturing 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, May 4, 2023 at 12:00 p.m. PDT (3:00 p.m. EDT)

To participate in the teleconference please dial 416-340-2217 or 1-800-952-5114 (passcode: 6443863#). This call will be taped, available one hour after the teleconference, and on replay until June 4, 2023 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: 1672093#).

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