Western Forest Products Inc.
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Western Announces Third Quarter 2021 Results

Adjusted EBITDA of $66.3 million on Revenue of $352.9 million

November 3, 2021 – Vancouver, British Columbia – Western Forest Products Inc. (TSX: WEF) ("Western" or the "Company") reported adjusted EBITDA of $66.3 million in the third quarter of 2021. Western leveraged its flexible manufacturing platform to capitalize on improving specialty lumber markets and partially offset the impacts of North American commodity lumber price declines, difficult log harvest conditions and temporary logistics delays.

Net income in the third quarter of 2021 was $42.2 million ($0.12 per diluted share), as compared to net income of $11.5 million ($0.03 per diluted share) for the third quarter of 2020 and net income of $78.3 million ($0.21 per diluted share) in the second quarter of 2021.

Third Quarter Highlights:

- Delivered record third quarter adjusted EBITDA of $66.3 million and net income of $42.2 million
- Realized average lumber price of $1,553 per thousand board feet, despite a significant decline in commodity lumber prices
- Successfully transitioned to a sustainability-linked credit facility and extended the maturity to 2025
- Completed the sale of the Somass sawmill assets for $5.3 million
- Returned $33.8 million to shareholders via dividends and share repurchases
- Grew liquidity to $384.4 million to support growth strategy and balanced capital allocation

Western's third quarter adjusted EBITDA was $66.3 million, as compared to adjusted EBITDA of $33.7 million in the third quarter of 2020 and $120.4 million reported in the second quarter of 2021. Operating income prior to restructuring and other items was $53.5 million, compared to income of $19.0 million in the third quarter of 2020, 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)	**Q3 2021**	**Q3 2020**	**Q2 2021**	**YTD 2021**	**YTD 2020**
Revenue	$ 352.9	$ 290.6	$ 414.4	$1,089.8	$ 646.0
Export tax expense	6.2	11.0	10.8	25.2	22.6
Adjusted EBITDA	66.3	33.7	120.4	249.7	45.7
Adjusted EBITDA margin	19%	12%	29%	23%	7%
Operating income prior to restructuring and other items	$ 53.5	$ 19.0	$ 105.7	$ 208.0	$ 5.2
Net income (loss)	42.2	11.5	78.3	174.3	(1.0)
Earnings (loss) per share, basic and diluted	0.12	0.03	0.21	0.47	-
Net cash (debt), end of period	143.1	(119.4)	97.7		
Liquidity, end of period	384.4	127.9	341.1		

"In the third quarter we successfully pivoted lumber shipments to export markets, mitigating the impacts of North American commodity pricing volatility on our business", said Don Demens, President and Chief Executive Officer. "I am pleased that our flexible operating platform and specialty product focus continues to deliver stability in revenue and earnings."

Summary of Third Quarter 2021 Results

Adjusted EBITDA for the third quarter of 2021 was $66.3 million, as compared to adjusted EBITDA of $33.7 million in the same period last year. We successfully leveraged our flexible operating platform, directing shipments to relatively strong export lumber markets, which helped offset the impacts of North American lumber market volatility. In addition, we directed export-grade logs to our sawmills to overcome log supply challenges caused by weather-related harvest curtailments and permit delays.

Third quarter operating income prior to restructuring and other items was $53.5 million in 2021, as compared to operating income prior to restructuring and other items of $19.0 million in the same period last year. Increased shipment volume and higher average realized pricing drove significantly improved operating income prior to restructuring and other items compared to the third quarter of 2020.

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

Sales

After reaching record levels in May 2021, North American commodity lumber prices declined through most of the third quarter. In contrast to weak North America commodity lumber pricing, demand and pricing for lumber in Japan improved while demand for lumber in China remained stable. We took advantage of these market conditions to redirect lumber production and shipments from North America to export markets.

Lumber revenue rose 44% compared to the third quarter of last year, due to increased lumber shipments and significantly improved prices across all product segments. Sales volumes increased by 17%, led by increases of 49% and 47% in Japan and commodity lumber shipments, respectively, while Niche shipments were relatively flat. Limited cedar log availability constrained cedar lumber production and shipments, as compared to the same period last year.

Our average realized lumber price was $1,553 per thousand board feet, an increase of 23% from the third quarter of 2020 as we capitalized on higher pricing across all product segments, including achieving record pricing in Japan. These factors more than offset the effect of a weaker sales mix and the 6% appreciation of the Canadian to US dollar exchange rate from the comparative period.

Log revenue was $41.0 million in the third quarter of 2021, a decline of 44% from the same period in the prior year. Timberlands operating curtailments through the second and third quarter of 2021 limited log harvest and sales volumes. We redirected export-grade log supply to our sawmills to ensure an uninterrupted fibre supply in support of lumber production. Average realized log price increased by 16% from the same period last year as improved pricing offset a weaker log sales mix.

By-product revenue was $12.1 million, an increase of $3.8 million as compared to the same period last year. Chip price realizations improved as a result of significantly higher NBSK pulp price.

Operations

Lumber production of 175 million board feet was 9% lower than the third quarter last year, due to log supply related operating curtailments.

We harvested 690,000 cubic metres of logs from our coastal operations in British Columbia ("BC") in the third quarter of 2021, as compared to 1,138,000 cubic metres in the third quarter last year. Third quarter log production was significantly impacted by prolonged operating curtailments in 2021, as extreme fire conditions persisted through the summer. Excluding stumpage, timberlands operating costs improved over the comparative period, as operating curtailments in 2021 resulted in the partial deferral of road building and reduced helicopter logging volumes. Improved log and lumber pricing drove a doubling of stumpage fees applied to our business in the third quarter harvest of 2021, but lower harvest volumes limited the increase in stumpage expense to 22% from the same period last year.

BC coastal saw log purchases were 227,000 cubic metres, a decrease of 3% from the same period last year. Saw log supply remains tight as an extended fire season negatively impacted harvest volumes as compared to the same period last year.

Third quarter freight expense remained flat as compared to the same period last year despite an increase in lumber shipments. The reduction in freight expense associated with not shipping logs to export markets offset incremental costs arising from increased lumber shipments and higher freight rates.

Adjusted EBITDA and operating income included $6.2 million of countervailing duty ("CV") and anti-dumping duty ("AD") expense in the third quarter of 2021, as compared to $11.0 million in the same period of 2020. The reduction in duty rates from 20.23% to 8.99%, and a stronger Canadian to US Dollar exchange rate, more than offset the impact of increased US-destined lumber sales volumes and higher lumber pricing on which duty was applied.

Selling and Administration Expense

Third quarter selling and administration expense was $13.6 million in 2021 as compared to $10.4 million in the third quarter last year.

Strong financial results and share price appreciation in the third quarter of 2021 had an incremental compensation expense impact of $2.1 million over the comparative quarter of 2020. This comparative increase was comprised of an additional $0.5 million performance-based incentive compensation, and $1.6 million on the vesting of incentive plans and mark-to-market expense on long-term compensation liabilities.

Other Income

We recognized other income of $4.0 million attributable to gains on the sale of the Somass Division assets and other non-core properties, as compared to an expense of $0.6 million in the same period of 2020.

Finance Costs

Finance costs were reduced to $0.4 million as compared to $2.0 million in the third quarter last year due to a significant reduction in average outstanding debt balance. In the third quarter of 2021, the Company repaid a $1.9 million long-term equipment loan.

Income Taxes

We used our remaining non-capital Canadian tax loss carryforwards during the first quarter of 2021, which will result in cash taxes payable for the tax year ending December 31, 2021. Accordingly, current income tax expense of $13.6 million and a deferred income tax expense of $0.4 million were recognized in net income in the third quarter of 2021. Income tax expense increased by $9.6 million from the third quarter of 2020, driven by strong operating earnings.

Net Income

Net income for the third quarter of 2021 was $42.2 million, as compared to net income of $11.5 million for the same period last year. Significantly improved net income resulted from strong operating performance and continued strong product pricing.

Summary of Year to Date 2021 Results

Adjusted EBITDA for the first nine months of 2021 was $249.7 million, as compared to $45.7 million for the same period last year. We leveraged our flexible operating platform to pursue the highest margin opportunities and deliver record adjusted EBITDA. In the first half of 2021, we directed production to North American commodity lumber markets to take advantage of unprecedented pricing. Our North American commodity lumber focus led to improved recovery, while increasing secondary processing and related costs. With the steep decline in North American prices through the third quarter of 2021, we redirected production and grew export lumber shipments to Japan and China.

Operating income prior to restructuring and other items was $208.0 million, as compared to $5.2 million for the same period last year, as a result of strong operating performance.

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 the first nine months of 2021 was $929.5 million, 93% higher than the same period last year due to a combination of a 19% increase in realized pricing and 62% increase in shipment volumes. During the first half of 2021, we capitalized on record North American commodity pricing by increasing commodity shipments by 140% compared to the same nine month period last year. As North American commodity prices began to decline late in the second quarter of 2021, we redirected commodity shipments to relatively stronger export markets. Comparative period revenue and shipments were negatively impacted by the Strike, which ended in February 2020.

Improved lumber pricing led to a 19% increase in average lumber price realization as compared to the first nine months of 2020. Our flexible operating platform allowed us to capitalize on changing market conditions, transitioning production and shipments from North American markets to improved export lumber markets. Price realizations were negatively impacted by an 8% appreciation in the average Canadian to US dollar exchange rate year-over-year.

Log revenue was $120.4 million in the first nine months of 2021, a decrease of 18% from the same period last year, despite a 25% increase in average realized log price. Operating curtailments and permitting delays reduced harvesting production in the first nine months of 2021. We redirected export and certain domestic logs to our sawmills to support lumber production to capitalize on strong lumber markets. The comparative period was impacted by a weaker log sales mix caused by Strike-related log degradation, and the impact of COVID-19 on global markets.

By-product revenue grew to $39.9 million, as compared to $18.4 million in the same period last year. Increased lumber production drove higher chip production and shipments as compared to the first nine months of 2020, which was impacted by lower production during the Strike.

Operations

Lumber production in the first nine months of 2021 was 581 million board feet, 47% higher than the same period last year. The comparative period production was negatively impacted by the Strike.

We achieved higher lumber production in 2021 through increased operating hours and improved production efficiency. 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. Third quarter lumber production in 2021 was impacted by lower recovery associated with export lumber production, and temporary operating curtailments due to constrained log supply.

Log production for the first nine months of 2021 was 2,390,000 cubic metres, a decrease of 5% over the same period last year. Unfavourable weather conditions and permit delays impacted log production, and deferred road expense to future periods. Logging expenses have increased over the same period of 2020, primarily due to a 70% 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 the first nine months of 2021 was $72.2 million, an increase of 48% as compared to the same period last year due primarily to a 62% 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 limited container availability by converting a component of our lumber shipments to breakbulk.

Adjusted EBITDA and operating income in the first nine months of 2021 included $25.2 million of export tax expense, as compared to $22.6 million in the same period of 2020. We increased lumber revenue on which duties were applicable but benefitted from the reduction in cash deposit rates from 20.23% to 8.99% and a stronger Canadian to US Dollar exchange rate.

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 for the first nine months of 2021 was $44.6 million as compared to $24.9 million in the same period last year. Record financial results and a 72% share price appreciation in the first nine months of 2021 had an incremental expense impact of $16.1 million.

Year-to-date mark-to-market expense on long-term compensation liabilities was $4.0 million in 2021, as compared to a recovery of $0.3 million in the comparative period of 2020, with the vesting of incentive plans contributing an additional $5.6 million expense year-over-year. Performance-based incentive compensation drove an incremental $6.3 million expense in the first nine months of 2021 as compared to the comparative of the prior year.

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.

Other Income

We recognized other income of $22.1 million attributable primarily to gains from the sale of the Orca Quarry assets, the Somass Division assets and other non-core properties and surplus equipment for the first nine months of 2021 as compared to $1.2 million in the same period last year.

Finance Costs

Finance costs were $1.7 million, compared to $6.4 million in the first nine months of 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.

Income Taxes

We used our remaining non-capital Canadian tax loss carryforwards during the first quarter of 2021, which will result in cash taxes payable for the tax year ending December 31, 2021. In addition, capital loss carryforwards were applied against taxable capital gains arising from non-core asset dispositions. Accordingly, current income tax expense of $53.6 million and a deferred income tax recovery of $1.4 million were recognized in net income in the first nine months of 2021. Income tax expense increased by $52.9 million from the first nine months of 2020 as a result of record operating earnings.

Net Income

Strong operating performance and record product pricing resulted in a net income of $174.3 million for the first nine months of 2021, as compared to a net loss of $1.0 million for the same period last year. Net income in 2020 was impacted by COVID-19 market uncertainty, related incremental operating costs and the Strike.

Sale of Other Non-Core Assets

Western has completed $50.1 million in non-core asset sales through the first nine months of 2021, including the sale of Orca Quarry assets, the Somass Division assets, and other non-core property and equipment.

On August 12, 2021, Western announced the completion of the sale of certain properties, including the Somass sawmill site, to City of Port Alberni for proceeds of $5.3 million.

On October 7, 2021, Western completed the sale of its interests in timber licences and jointly held forest licences in an area outside of Squamish, BC, for proceeds of $1.5 million. These proceeds were incremental to the amounts recognized in our results for the first nine months of 2021.

Sustainability-Linked Credit Facility

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

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

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 members First Nations on central Vancouver Island, BC.

Nanwakolas Council represents Tlowitsis, K’ómoks, Wei Wai Kum and We Wai Kai First Nations. Several Western forest tenures overlap with Nanwakolas 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.

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 ‘Na̱mg̱is-owned corporation, and the operating area of the Da̱nyas Limited Partnership, a successful forest partnership established by ‘Na̱mg̱is and Western in 2015.

This Landscape Level Plan is supported by the BC Government (“Province”) as a formal pilot project to inform the implementation of the Province’s Forest and Range Practices Act amendments 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 (“Quatsino”). 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.

TFL 44 Partnership 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 TFL 44 LP to Huumiis Ventures Limited Partnership (“HVLP”), a limited partnership beneficially owned by the Huu-ay-aht First Nations (“HFN”), for $22.4 million. HVLP’s current equity interest in TFL 44 LP is 35%. Also in the first half of 2021, we began the co-development and TFL 44 LP 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 TFL 44 LP 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 TFL 44 LP 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 TFL 44 LP.

On October 29, 2021, TFL 44 LP announced its intention to change its name to Tsawak-qin Forestry Limited Partnership, effective January 1, 2022. 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 2019 and 2020, the Province introduced various policy initiatives and regulatory changes that impact the BC forest sector regulatory framework as part of a Coastal Revitalization Initiative 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 application. 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 deferral of harvesting in 2.6 million hectares of BC forests. The proposed deferrals, if implemented, have been identified as temporary, and are subject to First Nations engagement. The Province has stated that final decisions on 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 deferred old-growth logging in 2,000 hectares of forest in southwestern Vancouver Island, BC for a period of two years. The deferral was implemented at the request of local First Nations, with the deferral period aligned with timelines required to prepare resource-stewardship plans in collaboration with tenure rights holders.

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

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.

PPWC Labour Agreement

As announced in September 2021, Western and the Public and Private Workers of Canada, Local 8, reached a new eight-year labour agreement for the hourly employees of Western's Value-Added Division, location in Chemainus, BC. That agreement came into effect October 15, 2021.

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.

Dividend and Capital Allocation

We remain committed to a balanced approach to capital allocation. To return capital to shareholders, we reinstated a regular quarterly dividend in 2021 and continue to repurchase common shares under our NCIB.

We will continue to evaluate opportunities to invest strategic and discretionary capital in jurisdictions that create the opportunity to grow long-term shareholder value. We expect to focus near-term internal strategic capital investments on projects that reduce manufacturing costs or address kiln drying and planer capacity constraints on the BC Coast. These potential investments will help support growth of our specific product line initiatives, as well as add value to our products. We currently have approximately $10.5 million in strategic capital projects underway in BC, and we continue to evaluate opportunities to invest in the competitive positioning of our value-added operations. The Company will evaluate all capital allocation decisions after considering our operating results, financial condition, cash requirements, financing agreement restrictions and other factors or financial metrics that may be deemed relevant.

Quarterly Dividend

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

The Company's Board of Directors will continue to review our dividend on a quarterly basis. Dividends of $3.6 million and $11.0 million were paid in the three and nine months ending September 30, 2021, respectively.

Normal Course Issuer Bid ("NCIB")

On August 5, 2021, the Company renewed its NCIB permitting the purchase and cancellation of up to 29,726,940 common shares, representing 10% of the public float outstanding as of August 5, 2021. The renewed NCIB was effective beginning August 11, 2021 and will end no later than August 10, 2022.

The Company also entered into an automatic share purchase plan with its designated broker to facilitate purchases of its common shares under the NCIB at times when the Company would ordinarily not be permitted to purchase its common shares due to regulatory restrictions or self-imposed blackout periods.

The Company's previous NCIB to purchase for cancellation up to 23,112,988 common shares expired on August 10, 2021. Under the previous NCIB, the Company purchased 21,354,656 common shares for $43.6 million, at a volume weighted average price of $2.04 per common share, representing approximately 6.9% of the public float outstanding at the commencement of our previous NCIB.

During the first nine months of 2021, we repurchased and cancelled 30,346,240 common shares for $62.4 million at an average price of $2.06 per common share. No common shares were repurchased in the same period of last year.

As at November 3, 2021, we have purchased 13,536,815 common shares for $29.1 million under our renewed NCIB at an average price of $2.15 per common share. We are permitted to purchase up to an additional 16,190,125 common shares under the renewed NCIB before it expires on August 10, 2022.

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

After reaching record levels in May 2021, North American commodity lumber prices declined by over 70% through August 2021. Despite recent North American market volatility, we expect near-term lumber pricing to remain above its historic trend level, supported by strong housing market fundamentals and ongoing logistics constraints.

Strong demand and record pricing in export cedar lumber markets is expected to be partially offset by typical North American seasonal demand weakness and a duty rate increase in late November 2021. Looking to the first half of 2022, we expect a stronger repair and renovation segment and reduced supply to support cedar lumber sales volumes and pricing.

Niche product demand and pricing remains strong. We anticipate that seasonal weakness in the North American timber segment will transition to improved demand and pricing leading into Spring.

In Japan, lumber supply constraints and the recovery in new home construction have led to lower lumber inventories and strong market pricing. As we look forward, logistics challenges are expected to continue to limit import volumes from Europe and North America while domestic supply is projected to remain relatively flat. The combination of limited supply and strong demand should support pricing into the first part of 2022. To overcome container shipping challenges, we expect to increase our near-term use of higher-cost breakbulk shipments to service our Japanese customers.

An extended third quarter fire season limited domestic log harvest. Domestic saw log prices are expected to increase due to the resulting supply impacts, as well as rising stumpage costs and improving lumber markets.

The price for Northern Bleached Softwood Kraft pulp has been impacted by logistics constraints and energy conservation efforts in China, and despite tight supply pulp logs and sawmill residual chips may face price pressures into the end of the year.

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 shipping 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 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 $6.2 million of export duties at a combined duty rate of 8.99% on its lumber shipments into the US in the third quarter of 2021, as compared to $11.0 million at a duty rate of 20.23% in the same period last year. A 18% increase in lumber shipments and the impact of improved lumber pricing over those periods was more than offset by lower duty rates and a stronger average Canadian to US dollar exchange rate.

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

On May 21, 2021, the DoC released a preliminary revised combined rate of 18.32% in the CV and AD second administrative review of shipments for the period ended December 31, 2019. The DoC may revise these rates between the preliminary and the final determination, expected to be released November 24, 2021. Cash deposits continue at the combined duty rate of 8.99% until the final determinations are published, after which any revised rate will apply.

On September 2, 2021, the DoC extended the deadline, to January 28, 2022, for its preliminary results of the third administrative review of CV and AD rates for the year ended December 31, 2020.

At September 30, 2021, Western had $147.3 million (US$116.1 million) of cash on deposit with the US Department of Treasury in respect of these softwood lumber duties, of which $36.9 million (US$29.1 million) is recognized in the Company's balance sheet arising from rate determinations in 2017 and 2020.

Including wholesale lumber shipments, our lumber shipments to the US market represent approximately 44% of our total lumber revenue in the first three quarters of 2021, as compared to 39% in the same period last year and 41% in fiscal 2020. Our distribution and processing centre in Arlington, Washington and our Columbia Vista division in Vancouver, Washington are expected to partially mitigate the damaging effects of duties on our products destined for the US market. We intend to leverage our flexible operating platform to continue to partially mitigate any challenges that arise from this trade dispute.

Non-GAAP Measures

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

(millions of Canadian dollars except where otherwise noted)

Adjusted EBITDA	**Q3 2021**	**Q3 2020**	**Q2 2021**	**YTD 2021**	**YTD 2020**
Net income (loss)	$ 42.2	$ 11.5	$ 78.3	$ 174.3	$ (1.0)
Add:					
Amortization	12.0	14.0	13.3	38.2	39.2
Changes in fair value of biological assets	0.8	0.6	1.5	3.5	1.2
Operating restructuring items	0.9	0.5	0.5	1.9	1.5
Other income (expense) (1)	(4.0)	0.6	(1.4)	(22.1)	(1.2)
Finance costs	0.4	2.0	0.4	1.7	6.4
Current income tax (recovery)	13.6	-	31.2	53.6	(0.1)
Deferred income tax (recovery)	0.4	4.4	(3.3)	(1.4)	(0.4)
Adjusted EBITDA	$ 66.3	$ 33.7	$ 120.4	$ 249.7	$ 45.7
Adjusted EBITDA margin					
Total revenue	$ 352.9	$ 290.6	$ 414.4	$1,089.8	$ 646.0
Adjusted EBITDA	66.3	33.7	120.4	249.7	45.7
Adjusted EBITDA margin	19%	12%	29%	23%	7%
Net debt to capitalization					
Net debt					
Total debt	$ 0.0	$ 121.3	$ 1.9		
Cash and cash equivalents	(143.1)	(1.9)	(99.6)		
Net debt (cash)	$(143.1)	$ 119.4	$ (97.7)		
Capitalization					
Net debt (cash)	$(143.1)	$ 119.4	$ (97.7)		
Add: equity	620.6	471.1	611.5		
Capitalization	$ 477.5	$ 590.5	$ 513.8		
Net debt to capitalization	-	20%	-		

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 and gain on disposal of assets.

Forward Looking Statements and Information

This press release contains statements that may constitute forward-looking statements under the applicable securities laws. Readers are cautioned against placing undue reliance on forward-looking statements. All statements herein, other than statements of historical fact, may be forward-looking statements and can be identified by the use of words such as "will", "estimate", "expect", "anticipate", "plan", "forecast", "intend", "believe", "seek", "could", "should", "may", "likely", "continue" and similar references to future periods. Forward-looking statements in this press release include, but are not limited to, statements relating to our current intent, belief or expectations with respect to: domestic and international market conditions, demands and growth; economic conditions; our growth, marketing, product, wholesale, operational and capital allocation plans and strategies, including but not limited to payment of a dividend; fibre availability and regulatory developments; the impact of COVID-19; and the selling of additional incremental ownership interest in TFL 44 LP and in other potential LP structures in the future. Although such statements reflect management's current reasonable beliefs, expectations and assumptions as to, amongst other things, the future supply and demand of forest products, global and regional economic activity and the consistency of the regulatory framework within which the Company currently operates, there can be no assurance that forward-looking statements are accurate, and actual results and performance may materially vary. Many factors could cause our actual results or performance to be materially different, including: economic and financial conditions, international demand for forest products, competition and selling prices, international trade disputes, changes in foreign currency exchange rates, labour disputes and disruptions, natural disasters, the impact of climate change, relations with First Nations groups , the availability of fibre and allowable annual cut, the ability to obtain operational permits, development and changes in laws and regulations affecting the forest industry including as related to old growth timber management and the Manufactured Forest Products Regulation, changes in the price of key materials for our products, changes in opportunities, future developments in the COVID-19 pandemic and other factors referenced under the "Risks and Uncertainties" section of our MD&A in our 2020 Annual Report dated February 18, 2021. The foregoing list is not exhaustive, as other factors could adversely affect our actual results and performance. Forward-looking statements are based only on information currently available to us and refer only as of the date hereof. Except as required by law, we undertake no obligation to update forward-looking statements.

Reference is made in this press release to adjusted EBITDA which is defined as operating income prior to operating restructuring items and other items plus amortization of property, plant, and equipment, and intangible assets, impairment adjustments, and changes in fair value of biological assets. Adjusted EBITDA margin is adjusted EBITDA presented as a proportion of revenue. Western uses adjusted EBITDA and adjusted EBITDA margin as benchmark measurements of our own operating results and as benchmarks relative to our competitors. We consider adjusted EBITDA to be a meaningful supplement to operating income as a performance measure primarily because amortization expense, impairment adjustments and changes in the fair value of biological assets are non-cash costs, and vary widely from company to company in a manner that we consider largely independent of the underlying cost efficiency of their operating facilities. Further, the inclusion of operating restructuring items which are unpredictable in nature and timing may make comparisons of our operating results between periods more difficult. We also believe adjusted EBITDA and adjusted EBITDA margin are commonly used by securities analysts, investors and other interested parties to evaluate our financial performance.

Adjusted EBITDA does not represent cash generated from operations as defined by IFRS and it is not necessarily indicative of cash available to fund cash needs. Furthermore, adjusted EBITDA does not reflect the impact of certain items that affect our net income. Adjusted EBITDA and adjusted EBITDA margin are not measures of financial performance under IFRS, and should not be considered as alternatives to measures of performance under IFRS. Moreover, because all companies do not calculate adjusted EBITDA and adjusted EBITDA margin in the same manner, these measures as calculated by Western may differ from similar measures calculated by other companies. A reconciliation between the Company's net income as reported in accordance with IFRS and adjusted EBITDA is included in this press release.

Also in this press release management may use key performance indicators such as net debt, net debt to capitalization and current assets to current liabilities. Net debt is defined as long-term debt less cash and cash equivalents. Net debt to capitalization is a ratio defined as net debt divided by capitalization, with capitalization being the sum of net debt and equity. Current assets to current liabilities is defined as total current assets divided by total current liabilities. These key performance indicators are non-GAAP financial measures that do not have a standardized meaning and may not be comparable to similar measures used by other issuers. They are not recognized by IFRS, however, they are meaningful in that they indicate the Company's ability to meet their obligations on an ongoing basis, and indicate whether the Company is more or less leveraged than the prior year.

Western is an integrated forest products company building a margin-focused log and lumber business to compete successfully in global softwood markets. With operations and employees located primarily on the coast of British Columbia and Washington State, Western is a premier supplier of high-value, specialty forest products to worldwide markets. Western has a lumber capacity in excess of 1.1 billion board feet from eight sawmills and four remanufacturing facilities. The Company sources timber from its private lands, long-term licenses, First Nations arrangements, and market purchases. Western supplements its production through a wholesale program providing customers with a comprehensive range of specialty products.

TELECONFERENCE CALL NOTIFICATION:

Thursday, November 4, 2021 at 9:00 a.m. PDT (12:00 p.m. EDT)

To participate in the teleconference please dial 416-340-2217 or 1-800-952-5114 (passcode: 6909729#). This call will be taped, available one hour after the teleconference, and on replay until December 5, 2021 at 8:59 p.m. PST (11:59 p.m. EST). To hear a complete replay, please call 905-694-9451 / 1-800-408-3053 (passcode: 3067757#).

For further information, please contact:
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