



Western Forest Products Inc.
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Western Forest Products Inc.

Management's Discussion and Analysis
of Financial Conditions and Results of Operations

Three and nine month periods ended September 30, 2019

Management's Discussion & Analysis

The following Management's Discussion and Analysis ("MD&A") reports and comments on the financial condition and results of operations of Western Forest Products Inc. (the "Company", "Western", "us", "we", or "our"), on a consolidated basis, for the three and nine months ended September 30, 2019, to help security holders and other readers understand our Company and the key factors underlying our financial results. This discussion and analysis should be read in conjunction with our unaudited condensed consolidated interim financial statements and the notes thereto for the three and nine months ended September 30, 2019, and our audited annual consolidated financial statements and the notes thereto and Management's Discussion and Analysis for the year ended December 31, 2018 (the "2018 Annual Report"), which can be found on SEDAR at www.sedar.com.

The Company has prepared the consolidated financial statements for the three and nine months ended September 30, 2019, in accordance with International Financial Reporting Standards ("IFRS"), as issued by the International Accounting Standards Board. Amounts discussed herein are based on our unaudited condensed consolidated interim financial statements and are presented in millions of Canadian dollars unless otherwise noted. Certain prior period comparative figures have been reclassified to conform to the current period's presentation. The Company has adopted IFRS 16, *Leases*, with a date of initial application of January 1, 2019, using a modified retrospective approach. Under the modified retrospective approach, the cumulative effect of initial application has been recognized in retained earnings at January 1, 2019, and comparative information has not been restated and continues to be reported under IAS 17, *Leases*.

Reference is made in this MD&A to adjusted EBITDA¹. Adjusted EBITDA is defined as operating income prior to operating restructuring items and other income (expenses), plus amortization of property, plant, and equipment and intangible assets, impairment adjustments, and changes in fair value of biological assets. Adjusted EBITDA margin is adjusted EBITDA as a proportion of revenue. Western uses adjusted EBITDA and adjusted EBITDA margin as benchmark measurements of our own operating results and as benchmarks relative to our competitors. We consider adjusted EBITDA to be a meaningful supplement to operating income as a performance measure primarily because amortization expense, impairment adjustments and changes in the fair value of biological assets are non-cash costs, and vary widely from company to company in a manner that we consider largely independent of the underlying cost efficiency of their operating facilities. Further, the inclusion of operating restructuring items which are unpredictable in nature and timing may make comparisons of our operating results between periods more difficult. We also believe adjusted EBITDA and adjusted EBITDA margin are commonly used by securities analysts, investors and other interested parties to evaluate our financial performance.

Adjusted EBITDA does not represent cash generated from operations as defined by IFRS and it is not necessarily indicative of cash available to fund cash needs. Furthermore, adjusted EBITDA does not reflect the impact of certain items that affect our net income. Adjusted EBITDA and adjusted EBITDA margin are not measures of financial performance under IFRS, and should not be considered as alternatives to measures of performance under IFRS. Moreover, because all companies do not calculate adjusted EBITDA 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 under the "*Non-GAAP Measures*" section herein.

Also in this MD&A, management uses 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 ratio 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 its obligations on an ongoing basis, and indicate whether the Company is more or less leveraged than in prior periods.

This MD&A 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", "project", "expect", "anticipate", "plan", "intend", "believe", "seek", "should", "may", "likely", "pursue" and similar references to future periods. Forward-looking statements in this MD&A include, but are not limited to, statements relating to: our current intent, belief or expectations with respect to: market and general economic conditions, the United Steelworkers Local 1-1937 labour dispute and the impact of the dispute, accounting standards, the regulatory framework, future costs, available harvest levels and our future operating performance, objectives, capital expenditures and strategies. 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: general economic conditions, international demand for lumber, competition and selling prices, international trade disputes, changes in foreign currency exchange rates, labour disputes and disruptions, natural disasters, relations with First Nations groups, changes in laws, the availability of allowable annual cut, changes in regulations or public policy affecting the forest industry, changes in opportunities and other factors referenced under the "Risks and Uncertainties" section herein. 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.

Unless otherwise noted, the information in this discussion and analysis is updated to November 6, 2019.

¹ Earnings Before Interest, Tax, Depreciation and Amortization

Summary of Selected Quarterly Results ⁽¹⁾

	Q3 2019	Q3 2018	Q2 2019	YTD 2019	YTD 2018	
<i>(millions of Canadian dollars except per share amounts and where otherwise noted)</i>						
Summary Information						
Revenue						
Lumber	\$ 109.7	\$ 238.2	\$ 233.6	\$ 562.2	\$ 722.0	
Logs	27.4	33.6	63.3	131.9	123.8	
By-products	4.5	20.7	13.4	33.5	66.1	
Total revenue	\$ 141.6	\$ 292.5	\$ 310.3	\$ 727.6	\$ 911.9	
Freight	\$ 9.5	\$ 21.8	\$ 26.4	\$ 59.0	\$ 66.2	
Export tax	5.5	11.5	9.7	24.4	32.9	
Stumpage	-	10.9	14.2	26.4	38.9	
Adjusted EBITDA	\$ (16.6)	\$ 32.3	\$ 15.1	\$ 16.6	\$ 125.5	
Adjusted EBITDA margin	-11.7%	11.0%	4.9%	2.3%	13.8%	
Operating income (loss) prior to restructuring and other items	\$ (24.2)	\$ 23.4	\$ 1.4	\$ (17.1)	\$ 95.7	
Net income (loss)	(18.7)	15.1	(0.7)	(17.5)	63.9	
Basic and diluted earnings per share (in dollars)	(0.05)	0.04	-	(0.05)	0.16	
Operating Information						
Lumber⁽²⁾						
Lumber Shipments – millions of board feet						
Western Red Cedar	26	51	49	121	158	
Japan Specialty	19	31	40	89	101	
Niche	13	24	32	75	72	
Commodity	32	106	90	219	331	
Total	90	212	211	504	662	
Lumber Production – millions of board feet	48	221	206	457	664	
Lumber Price – per thousand board feet	\$ 1,219	\$ 1,124	\$ 1,107	\$ 1,115	\$ 1,091	
Wholesale Lumber Shipments - millions of board feet	11	4	8	25	14	
Logs⁽³⁾						
Log Shipments – thousands of cubic metres						
Export	2	10	94	107	64	
Domestic	193	189	315	772	814	
Pulp	51	109	127	272	262	
Total	246	308	536	1,151	1,140	
Net production – thousands of cubic metres ⁽⁴⁾	21	815	1,250	2,193	3,193	
Saw log purchases – thousands of cubic metres	84	197	238	530	759	
Log Price – per cubic metre ⁽⁵⁾	\$ 110	\$ 109	\$ 112	\$ 111	\$ 109	
Illustrative Lumber Average Price Data⁽⁶⁾						
		Price Basis				
Gm WRC #2 Clear & Btr 4x6W RL (\$C)	c.i.f. dest. N Euro	\$ 4,400	\$ 5,150	\$ 4,400	\$ 4,496	\$ 5,089
Gm WRC Deck Knotty 2x6 RL S4S	Net f.o.b. Mill	\$ 1,340	\$ 1,503	\$ 1,340	\$ 1,348	\$ 1,517
Gm WRC #2 & Btr AG 6x6 RL	Net f.o.b. Mill	\$ 2,246	\$ 2,215	\$ 2,245	\$ 2,245	\$ 2,097
Coast Gm WRC Std&Btr NH 3/4x4 RL S1S2E	Net f.o.b. Mill	\$ 1,095	\$ 1,180	\$ 1,095	\$ 1,097	\$ 1,180
Gm Hem Baby Squares Merch 4-1/8x4-1/8 13' S4S	c.&f. dest. Japan	\$ 855	\$ 1,000	\$ 884	\$ 896	\$ 932
Gm Dfir Baby Squares Merch 4-1/8x4-1/8 RL S4S	c.&f. dest. Japan	\$ 1,072	\$ 1,235	\$ 1,123	\$ 1,116	\$ 1,185
KD White Fir Shop Moulding&Btr C&Btr 5/4 S2S	Net f.o.b. Mill	\$ 1,080	\$ 1,080	\$ 1,080	\$ 1,080	\$ 1,073
Gm Dfir (Portland) #1&Btr 100% FOHC 6x6 Rough	Net f.o.b. Mill	\$ 1,206	\$ 1,398	\$ 1,264	\$ 1,264	\$ 1,373
Hemlock Lumber 2x4 (40x90) Metric RG Utility	c.i.f. dest. Shanghai	\$ 401	\$ 527	\$ 413	\$ 413	\$ 501
Average Exchange Rate – CAD to USD		0.757	0.765	0.748	0.752	0.777
Average Exchange Rate – CAD to JPY		81.27	85.32	82.17	82.11	85.14

(1) Included in Appendix A is a table of selected results from the last eight quarters.

(2) Includes Columbia Vista operations, acquired February 1, 2019, and wholesale lumber shipments.

(3) British Columbia business only.

(4) Net production is sorted log production, net of residuals and waste.

(5) The log revenue used to determine average price per cubic metre has been reduced by the associated shipping costs arranged in the respective periods to enable comparability of unit prices.

(6) Sourced from Random Lengths in USD/Mfbm, except Hemlock Lumber Metric RG Utility that is sourced from China Bulletin.

Summary of Third Quarter 2019 Results

Third quarter results were significantly impacted by ongoing strike action (the “Strike”) by the United Steelworkers Local 1-1937 (“USW”) and weak markets. All of our timberlands and most of our British Columbia (“BC”) based manufacturing divisions did not operate in the third quarter of 2019 due to the Strike. We took steps to mitigate the Strike’s impact on our customers, business and cash flows by actively selling unencumbered inventories, drawing down working capital, and deferring certain expenditures.

Adjusted EBITDA for the third quarter of 2019 was negative \$16.6 million, as compared to positive EBITDA of \$32.3 million from the same period last year. Operating loss prior to restructuring and other items was \$24.2 million, as compared to operating income of \$23.4 million in the same period last year.

Our near-term focus remains on managing our balance sheet, cash flow and working capital, and reaching a reasonable collective agreement that creates certainty for our employees while maintaining Western’s globally competitive position. For more details on the current labour dispute, refer to the “*Labour Relations Update*” section.

Sales

Lumber revenue of \$109.7 million was 53.9% lower than the same period last year. Lumber shipment volumes of 90 million board feet were 57.5% lower than the same period last year due to the Strike, as most of our manufacturing operations were shutdown in the third quarter of 2019. We sold the majority of our unencumbered inventory, processed certain unencumbered logs at custom cut facilities, and grew our wholesale lumber program to service our customers and help mitigate the impact of the Strike. Our US-based Columbia Vista division continues to perform in line with our expectations and has been a positive addition to our business and product mix.

Despite difficult market conditions, our average realized lumber pricing increased 8.5% due to an improved specialty product mix and a weaker Canadian dollar (“CAD”) to United States dollar (“USD”). Specialty lumber represented 64.4% of third quarter shipments compared to 50.0% in the same period last year, as we increased wholesale lumber and custom cut volumes to meet customer needs.

Log revenue was \$27.4 million in 2019, a decrease of 18.5% from the same period last year. To mitigate the impact of the Strike on our business, we accelerated unencumbered log inventory sales in the quarter to help manage cash flow and reduce working capital levels.

By-product revenue was \$4.5 million, including \$1.2 million from our Columbia Vista operation. By-product revenue decreased by 78.3% as compared to the same period last year as most of our BC coastal operations were shut down due to the Strike.

Operations

To support our selected customers during the Strike, we redirected available inventory to active divisions and operated on a sub-optimal basis resulting in higher transportation and operating costs.

Leading up to the Strike, we drew down inventory at USW-certified operations to avoid restricted access to inventory and to supply our remanufacturing and custom cut operations; however, as certain inventory was encumbered by the Strike and degraded over the third quarter of 2019, we expensed an additional \$1.7 million provision against this restricted inventory.

We incurred \$19.2 million of expenses arising from curtailed operations and related operating inefficiencies as a result the Strike, including \$1.2 million of third quarter benefit costs paid on behalf of the USW for its striking members. After the USW’s refusal to commit to reimbursing these expenses, we made the difficult decision to discontinue paying benefit premiums on the USW’s behalf in the third month of the Strike. See “*Labour Relations Update*” for further information.

Lumber production of 48 million board feet was 78.3% lower than the same period last year. Incremental production from our US-based Columbia Vista division, which was acquired on February 1, 2019, was more than offset by the curtailment of our BC operations due to the Strike. We maintained production from third party custom cut facilities in the quarter to help mitigate the impact of the Strike.

Log production from our BC coastal operations was nominal at 21,000 cubic metres, compared to last year’s third quarter production of 815,000 cubic metres. The limited log production volume in the quarter was from joint ventures and limited partnerships, as all our USW certified timberlands operations were shut down for the third quarter of 2019 due to the Strike.

BC coastal saw log purchases were 84,000 cubic metres, a 57.4% decrease from the same period last year. Saw log purchases resulted from pre-existing purchase commitments and volumes generated from our joint venture arrangements.

Freight expense decreased by \$12.3 million from the same period last year due to lower shipment volumes.

Third quarter adjusted EBITDA and operating income included \$5.5 million of countervailing duty (“CVD”) and anti-dumping duty (“AD”), as compared to \$11.5 million in the same period last year. Duty expense declined as a result of reduced US-destined lumber shipment volumes.

Selling and Administration Expense

Third quarter selling and administration expense was \$6.0 million in 2019 as compared to \$6.5 million in the same period last year. During the quarter we took steps to reduce and manage expenses in order to help mitigate the negative impact of the Strike.

Finance Costs

Finance costs were \$1.9 million, compared to \$0.9 million in the same period last year. This was primarily due to a higher average outstanding debt balance in 2019, compared to no outstanding debt in 2018. As at September 30, 2019, the Company had drawn \$112.8 million on its credit facility. See “*Financial Position and Liquidity*” for further information.

As a result of adopting IFRS 16, *Leases* on January 1, 2019, we recognized \$0.6 million of finance costs on lease payments. In comparative periods, leasing finance costs were recognized in operating income.

Net Income (Loss)

Net loss for the third quarter of 2019 was \$18.7 million, as compared to net income of \$15.1 million for the same period last year. Net income was lower due to the Strike and weaker markets.

Summary of Year to Date 2019 Results

Adjusted EBITDA for the first nine months of 2019 was \$16.6 million, as compared to \$125.5 million from the same period last year. Operating loss prior to restructuring and other items was \$17.1 million, compared to operating income of \$95.7 million during the same period last year.

Sales

Lumber revenue was \$562.2 million, which was 22.1% lower than the same period last year, due to the Strike and more challenging market conditions compared to last year. Despite the decline in market pricing our average lumber price realizations increased, benefitting from a higher specialty product mix and a weaker CAD to USD. Specialty lumber represented 56.5% of year-to-date shipments, compared to 50.0% in the same period last year. Weak markets restricted the growth of our wholesale lumber program, as curtailed market production limited lumber volumes available for resale.

Log revenue was \$131.9 million in the first nine months of 2019, an increase of 6.5% from the same period last year. Log revenue benefited from the resumption of our export log sales program in the second quarter of 2019, but was partially offset by the impact of the Strike in the third quarter of 2019.

By-products revenue decreased to \$33.5 million in the first nine months of 2019, from \$66.1 million in the same period last year due to lower production as a result of the Strike and sawmill curtailments, declining BC coastal chip prices and reduced chip purchase-and-resale volume.

Operations

Lumber production of 457 million board feet was 31.1% lower than the same period last year. Market-related sawmill curtailments and the Strike led to lower production, which more than offset the inclusion of results from our US-based Columbia Vista division.

Log production for the first nine months of 2019 was 2,193,000 cubic metres, 31.3% lower than the same period last year, primarily due to the Strike in the third quarter of 2019.

BC coastal saw log purchases were 530,000 cubic metres, a 30.1% decrease from the same period last year, as we managed log purchases to available capacity to support customer needs.

Freight expense decreased by \$7.2 million as compared to same period last year, despite the resumption of our export log program in the second quarter of 2019, direct lumber shipments to China and the inclusion of Columbia Vista.

Adjusted EBITDA and operating income included \$24.4 million of CVD and AD expense, as compared to \$32.9 million in the same period of 2018. Duty expense declined as a result of reduced US-destined lumber shipment volumes due to the Strike.

Selling and Administration Expense

Selling and administration expense for the first nine months of 2019 was \$23.1 million, as compared to \$24.4 million in the same period last year. We took steps to reduce and manage expenses in order to help mitigate the negative impact of the Strike.

Finance Costs

Finance costs were \$5.6 million, compared to \$2.0 million in the first nine months of 2018, primarily due to comparatively higher average outstanding debt in 2019.

As a result of adopting IFRS 16, *Leases* on January 1, 2019, we recognized \$2.3 million of finance costs on lease payments in the first nine months of 2019. In comparative periods, leasing finance costs were recognized in operating income.

Net Income (Loss)

Net loss for the first nine months of 2019 was \$17.5 million, as compared to net income of \$63.9 million for the same period last year. Net income for the period was lower due to the Strike which impacted the entire third quarter of 2019.

Columbia Vista Asset Acquisition

On February 1, 2019, we completed the asset acquisition of Vancouver, Washington based Columbia Vista Corporation and related entities. This acquisition is consistent with our strategy of pursuing margin-focused business opportunities that complement our position in selected markets. Bringing Western and Columbia Vista together provides us the opportunity to expand our Douglas fir specialty product offerings, particularly in Japan, which will support our BC-based Hemlock programs. The combination of Columbia Vista and Western makes us more meaningful to our selected customers and creates a stronger company for all our employees.

Sale of Ownership Interest in Port Alberni Forest Operations

On March 29, 2019, we completed the sale of a 7% interest in our newly formed TFL 44 Limited Partnership ("TFL 44 LP") to the Huumis Ventures Limited Partnership (a limited partnership beneficially owned by the Huu-ay-aht First Nations) ("HVLP") for gross proceeds of \$7.3 million. As part of the agreement, HVLP may acquire an additional interest in the TFL 44 LP, which may include a majority interest, subject to further negotiations. The parties have extended the deadline of the negotiations. TFL 44 LP's assets consist of TFL 44 and certain other associated assets and liabilities of our Port Alberni Forest Operation. We will continue to source fibre from TFL 44 LP to support our BC manufacturing facilities.

Income Taxes

Lower operating earnings led to an income tax recovery of \$7.0 million being recognized in the third quarter of 2019, as compared to income tax expense of \$5.7 million in the same quarter of last year, and an income tax recovery of \$6.7 million for the nine months ended September 30, 2019, compared to an expense of \$24.4 million in the same period of last year.

In May 2018, the Company received correspondence from the Canada Revenue Agency (“CRA”) regarding certain restructuring transactions, occurring in 2004 and from 2007 to 2011, and the general anti-avoidance rule (“GAAR”). In May 2019, we received further correspondence from the CRA indicating the completion of their extensive audit. The CRA concluded that the matter would not be referred to their GAAR Committee and no further action was warranted, which is consistent with the Company’s position that the CRA’s earlier position was without merit.

Labour Relations Update

Western has been in negotiations with the USW since April 2019 for a new collective agreement to replace our prior agreement, which expired mid-June 2019. We applied to the BC Labour Relations Board (“Labour Relations Board”) on June 25, 2019 for the appointment of a mediator to assist in negotiations, but to date the Labour Relations Board has not made an appointment. The USW served seventy-two hours’ notice of strike action on the Company and some of its contractors on June 28, 2019.

On July 1, 2019, the USW, the union representing approximately 1,500 of our hourly employees and 1,500 employees working for our timberland contractors in BC, commenced a strike. The Strike is ongoing for all of our USW certified manufacturing and timberlands operations. The Strike is also indirectly impacting certain non-USW certified manufacturing operations, including our Ladysmith sawmill (due to insufficient log supply) and our Value-Added remanufacturing facility (due to a lack of lumber supply). Our US based Arlington and Columbia Vista divisions continue to operate, although our Arlington facility is operating on a reduced basis due to a lack of lumber supply caused by the Strike.

Upon receiving strike notice from the USW, we commenced our work stoppage contingency plan with a goal to protect our balance sheet while mitigating the impact of the Strike on our Company, customers and business partners.

On September 4, 2019, we announced the expectation to begin mediation between the Company and USW with an independent mediator on September 13, 2019. The independent mediator was agreed to by both the Company and the USW but was not appointed by the Labour Relations Board. On September 13, 2019, the USW withdrew from mediation with the Company and independent mediators after several hours of talks. The mediators informed the Company that the USW had left and would not be returning for talks scheduled for September 14, 2019. On October 17, 2019, we announced that the Company and USW were set to resume talks with the mediators. However, on October 31, 2019, we announced that no further mediation dates had been scheduled and we requested that the USW join us in binding arbitration in order to resolve the dispute.

We are committed to reaching a reasonable collective agreement that creates certainty for our employees, while maintaining our globally competitive position. We are seeking a collective agreement that is similar to those achieved in the northern and southern interior of BC, where the United Steelworkers and the Council on Northern Interior Forest Employment Relations and Interior Forest Labour Relations Association, respectively, have ratified new collective agreements. The actions taken by the USW come at a time when BC forestry companies are curtailing production and shutting down mills due to high log costs and poor market conditions.

The Strike is expected to have a negative impact on our fourth quarter results compared to the same period last year, but we are unable to determine the magnitude of that impact at this time.

Recent Developments - BC Government Forest Policies

In 2018, the BC Provincial Government (the “Province”) introduced a Coastal Revitalization Initiative and further policy initiatives that will affect the BC forest sector regulatory framework.

On April 1, 2019, the Province announced the creation of fibre recovery zones, which are intended to increase the supply of residual fibre from primary harvesting for secondary users.

Western estimates that approximately 70% of our timberland operations will be impacted with the creation of fibre recovery zones. The impacts to our business include the potential for higher costs and lower log harvest volumes. We expect the impacts will start to be realized in late 2019. The Province has been clear that they do not want to see unintended consequences from the policy implementation. We continue to collaboratively engage with the Province and other stakeholders 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.

On April 11, 2019, the Province announced Bill 22, *Forest Amendment Act, 2019*, which came into force on May 30, 2019. The amendments to the *Forest Act* will require tenure holders to receive approval from the Minister before disposing or transferring a tenure agreement to a third party. These amendments will enable the Minister to refuse to approve, or place conditions on the approval of, a disposition or transfer if it is deemed not to be in the public interest or detrimental to competition in the buying or selling of timber or residuals.

On May 16, 2019 Bill 21, *Forest and Range Practices Amendment Act, 2019*, designed to increase opportunities for public input, improve information sharing on forest planning, strengthen the Minister’s ability to manage forest activity, expand the definition of wildlife to help protect at-risk species and improve and streamline range-use planning was put into force.

On July 10, 2019, the Province announced the application of a targeted fee-in-lieu of manufacturing for exported logs harvested from BC Timber Sales, as a step towards ensuring that more logs are processed in BC.

The impact these policy initiatives may have on our operations cannot be determined at this time.

Sawmill and Remanufacturing Curtailments

The lumber industry in BC is facing the most challenging operating conditions in over a decade, including declining lumber and chip prices and high log costs which are negatively impacting the economics of our operations.

Due to market conditions, our Cowichan Bay sawmill was temporarily curtailed for a two-week period beginning March 25, 2019, and our Alberni Pacific sawmill was temporarily curtailed for a four-week period beginning March 18, 2019. Our Ladysmith sawmill was temporary curtailed for a two-week period beginning May 6, 2019, due to constrained log supply.

On June 6, 2019, we announced temporary production curtailments at three of our sawmills to align production volumes to customer demand. We curtailed our Duke Point sawmill for two weeks and our Saltair sawmill for one week in June. We reduced operating levels at our Chemainus sawmill from 120 hours per week to 80 hours per week.

On July 24, 2019, we announced an additional temporary curtailment at our Ladysmith sawmill due to illegal strike action taken by the USW, which impeded log supply to the mill. Subsequent to this announcement, the Labour Relations Board confirmed their earlier ruling that the USW tactics were illegal and ordered the USW to refrain from impeding log delivery to the mill. The Ladysmith sawmill continued to operate until it was curtailed on August 23, 2019, due to limited log supply.

On September 6, 2019, our BC Value-Added remanufacturing facility was curtailed in response to limited lumber supply as a result of the Strike.

Due to limited lumber volumes from our suppliers our Arlington remanufacturing facility in Washington State operated sporadically in the third quarter of 2019.

Financial Position and Liquidity

(millions of Canadian dollars except where otherwise noted)

	Q3 2019	Q3 2018	Q2 2019	YTD 2019	YTD 2018
Selected Cash Flow Items					
Operating Activities					
Net income (loss)	\$ (18.7)	\$ 15.1	\$ (0.7)	\$ (17.5)	\$ 63.9
Amortization	9.2	9.6	12.5	33.0	30.3
Income taxes paid	6.1	(2.2)	(8.0)	(17.0)	(2.2)
Other	(12.5)	3.4	0.7	(9.9)	22.9
Subtotal	(15.9)	25.9	4.5	(11.4)	114.9
Change in non-cash working capital	38.2	14.2	(13.9)	15.1	(2.3)
Cash provided by (used in) operating activities	\$ 22.3	\$ 40.1	\$ (9.4)	\$ 3.7	\$ 112.6
Investing Activities					
Additions to property, plant and equipment	\$ (2.4)	\$ (17.7)	\$ (8.5)	\$ (25.4)	\$ (43.2)
Additions to capital logging roads	(1.3)	(3.0)	(5.7)	(10.2)	(9.3)
Purchase of Arlington facility	-	-	-	-	(11.6)
Purchase of Columbia Vista	-	-	-	(37.7)	-
Proceeds from non-controlling interest	0.8	-	(0.8)	7.0	-
Other	1.5	0.8	0.1	2.3	1.1
Cash used in investing activities	\$ (1.4)	\$ (19.9)	\$ (14.9)	\$ (64.0)	\$ (63.0)
Financing Activities					
Draw on (repayment of) long-term debt	\$ (7.5)	\$ -	\$ 36.3	\$ 105.8	\$ -
Dividends	(8.4)	(8.8)	(8.5)	(25.5)	(25.6)
Share repurchases	(1.9)	(10.4)	(6.6)	(15.9)	(16.1)
Other	(3.3)	(0.3)	(2.3)	(7.4)	(0.4)
Cash provided by (used in) financing activities	\$ (21.1)	\$ (19.5)	\$ 18.9	\$ 57.0	\$ (42.1)
Increase (decrease) in cash	\$ (0.2)	\$ 0.7	\$ (5.4)	\$ (3.3)	\$ 7.5
Summary of Financial Position					
Cash and cash equivalents	\$ 5.1	\$ 42.8	\$ 5.3		
Current assets	222.4	324.6	333.7		
Current liabilities	57.8	146.0	136.4		
Total debt, net of deferred financing costs	112.0	-	119.4		
Net debt (cash) ⁽¹⁾	106.9	(42.8)	114.1		
Equity	519.1	586.6	546.7		
Total liquidity ⁽²⁾	141.3	291.8	133.9		
Financial ratios:					
Current assets to current liabilities	3.85	2.22	2.45		
Net debt to capitalization ⁽³⁾	0.17	-	0.17		

(1) Net debt (cash) is defined as the sum of long-term debt, less cash and cash equivalents.

(2) Total liquidity comprises cash and cash equivalents, and available credit under the Company's credit facility.

(3) Capitalization comprises net debt and equity.

Cash provided by operating activities during the third quarter of 2019 was \$22.3 million as compared to cash provided of \$40.1 million in the same period last year. We reduced our non-cash working capital by \$38.2 million in the quarter to partly offset significantly reduced cash from operations resulting from the Strike.

Cash used in investing activities was \$1.4 million during the third quarter of 2019, as compared to \$19.9 million invested during the same period last year. We reduced our capital spending in order to manage cash flow during the Strike, and incurred only safety, environmental and committed capital expenditures, which were partially offset by proceeds from sale of certain non-core land assets. Our strategic capital program is discussed in more detail under "Strategy and Outlook".

Cash used in financing activities was \$21.1 million in the third quarter of 2019, which included repayment of our credit facilities of \$7.5 million. This compared to cash used for financing activities of \$19.5 million in the same period last year. We returned \$8.4 million to shareholders through quarterly dividends, and repurchased \$1.9 million of our common shares for cancellation under our normal course issuer bid during the quarter.

Despite the majority of our operations having been inactive in the third quarter of 2019, our total liquidity increased to \$141.3 million as at September 30, 2019, from \$133.9 million at the end of the second quarter. Liquidity is comprised of cash and cash equivalents of \$5.1 million and unused availability under the credit facility of \$136.2 million. Based on our current forecasts, we expect sufficient liquidity will be available to meet our obligations in 2019. The Company was in compliance with all its financial covenants as at September 30, 2019.

Capital Allocation

Normal Course Issuer Bid

On August 2, 2019, the Company renewed its Normal Course Issuer Bid (“NCIB”) permitting the purchase and cancellation of up to 18,763,888 of the Company’s common shares or approximately 5% of the common shares issued and outstanding as of August 1, 2019. 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 19,662,439 common shares expired on August 7, 2019. Under the previous NCIB, the Company purchased 18,381,621 common shares for \$35.4 million, at a volume weighted average price of \$1.92 per common share, representing approximately 4.7% of the total shares outstanding at the commencement of our previous NCIB.

In the three months ended September 30, 2019, the Company repurchased 1,230,600 common shares under the NCIB for \$1.8 million at an average price of \$1.49 per common share.

Strategy and Outlook

Western’s long-term business objective is to create superior value for shareholders by building a margin-focused log and lumber business of scale to compete successfully in global softwood markets. We believe this will be achieved by maximizing the sustainable utilization of our forest tenures, operating safe, efficient, low-cost manufacturing facilities and augmenting our sales of targeted high-value specialty products for selected global customers with a lumber wholesale program. We seek to manage our business with a focus on operating cash flow and maximizing value through the production and sales cycle. We routinely evaluate our performance using the measure of Return on Capital Employed.

For more detail on our strategic initiatives and actions, refer to “*Strategy and Outlook*” in our Management’s Discussion and Analysis for the year ended December 31, 2018.

Sales & Marketing Strategy Update

We continue to progress with the execution of our sales and marketing strategy that focuses on the production and sale of targeted, high-margin products of scale to selected customers. We supplement our key product offerings with purchased lumber to deliver the suite of products our customers require. Our Columbia Vista division continues to perform in line with our expectations and has been a positive addition to our business and product mix. In the third quarter of 2019 we continued to develop and evaluate growth opportunities for our wholesale lumber business.

Market Outlook

Our long-term view of market fundamentals remains unchanged. In North America, rising lumber consumption will be driven by increased new home construction, a robust repair and renovation sector and growth of mass timber building technologies. In China, a government commitment to housing and economic stimulus should support demand for lumber. Growing demand and reduced supply due to North American sawmill curtailments is expected to benefit the industry long-term.

Despite positive long-term growth drivers, lumber markets have remained challenged in 2019 as North American weather events and skilled labour constraints have stalled US new home construction and muted growth in repair and renovation spending. In response to weak demand, temporary and permanent production curtailments have been announced. The supply impacts of these announcements have not been fully realized but are expected to improve lumber pricing in future quarters.

Recent BC Coastal cedar manufacturing closures should benefit our WRC product pricing going forward.

In Japan, we expect demand to remain flat for our Douglas fir products, however increased competition from European engineered wood products may pressure pricing. We expect market share erosion and weaker pricing for BC coastal Hemlock lumber in Japan, due to the supply shortages as a result of the Strike and increased competition from Japanese Government subsidized domestic species.

We anticipate demand for appearance Niche products to moderate due to the trade friction between the US and China. In contrast, we expect demand in North America to remain steady for timbers and industrial products.

Commodity lumber markets in North American are likely to remain volatile until supply and demand come into balance. As excess lumber inventory in China is reduced, we anticipate pricing will improve.

We expect domestic saw log prices to continue to weaken in response to lumber markets. Price declines may be somewhat mitigated by lower log supply, as recent government initiatives that have increased harvest costs are expected to challenge harvest economics. Looking ahead, lower domestic and export log prices may lead to lower BC coastal log stumpage rates.

In the US Pacific Northwest, we expect our Columbia Vista division to continue to benefit from lower Douglas fir saw log prices which have responded to the weaker lumber markets.

Near-term BC coastal chip pricing has stabilized but remains depressed due to NBSK pulp pricing.

Strategic Capital Program Update

We continue to evaluate opportunities to invest strategic capital in our business that are designed to position Western as the only company capable of sustainably consuming the complete profile of the coastal forest and competitively manufacturing a diverse product mix for global markets.

Our strategic capital program is focused on the installation of technology that will deliver top quartile performance and improve our ability to manufacture targeted products that yield the best margin. In addition to investments in our manufacturing assets, we also allocate capital to strategic, high-return projects involving our information systems, timberlands assets, and forest inventories.

Secondary processing at our Arlington facility continued in the third quarter of 2019; however, the expected ramp up of production at the facility has been partially impacted by the Strike and a lack of wholesale lumber supply due to market conditions.

Given the current uncertainty created by the ongoing labour dispute, unfavourable investment conditions in BC and our near-term focus on managing cash flow, we have scaled back our strategic capital investment. Until there is greater visibility with respect to the current labour dispute, the Company has halted all material non-committed strategic capital investment in BC.

Softwood Lumber Dispute and US Market Update

Western's results for the third quarter of 2019 include \$5.5 million of export duty expense, comprised of CVD and AD expense. At September 30, 2019, Western had \$87.2 million of cash on deposit with the US Department of Treasury in respect of these softwood lumber duties.

The US application of duties continues a long-standing pattern of US protectionist action against Canadian lumber producers. We disagree with the inclusion of specialty lumber products, particularly WRC and Yellow Cedar products in this commodity lumber focused dispute. As duties paid are determined on the value of lumber exported, and as our shipments to the US market are predominantly high-value, appearance grade lumber, we are disproportionately impacted by these duties. As a result, in May 2018, we filed a Chapter 19 North American Free Trade Agreement ("NAFTA") separate-like-product challenge, which was subsequently presented to a NAFTA hearing panel in May 2019. Unfortunately, in September 2019 the NAFTA panel chose not to remand our separate-like product challenge back to the US International Trade Commission ("USITC"). The lack of remand effectively ends our ability to challenge the USITC's finding that WRC and Yellow Cedar products are not a distinct product group, or interchangeable in their use, from commodity lumber.

On September 4, 2019, the NAFTA panel remanded the Canadian government's injury case back to the USITC. The USITC has 90 days to respond to the NAFTA panel's comments, however, we do not expect the USITC to back away from their finding of injury and therefore expect the remand process to be ongoing.

On April 9, 2019, a World Trade Organization (“WTO”) panel ruled on certain matters relating to the application of softwood lumber AD, concluding that the US violated international trade rules in the way it calculated AD duties. Included in the ruling, the WTO panel allowed the US to use “zeroing” in its calculation of AD, which Canada appealed in June 2019. The practice of zeroing had previously been disallowed by the WTO with regard to softwood lumber. The final determination of AD is subject to additional appeals from both the US and Canada.

Including wholesale lumber shipments, our sales to the US market represents less than 25% of Western’s total revenue in 2018. 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.

For a more detailed timeline of recent history of the softwood lumber dispute, refer to “*Risks and Uncertainties – Softwood Lumber Dispute*” in our Management’s Discussion and Analysis for the year ended December 31, 2018.

Non-GAAP Measures

Reference is made in this MD&A 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 audited annual consolidated financial statements:

<i>(millions of Canadian dollars except where otherwise noted)</i>	Q3 2019	Q3 2018	Q2 2019	YTD 2019	YTD 2018
Adjusted EBITDA					
Net income (loss)	\$ (18.7)	\$ 15.1	\$ (0.7)	\$ (17.5)	\$ 63.9
Add:					
Amortization	9.2	9.6	12.5	33.0	30.3
Changes in fair value of biological assets, net	(1.4)	(0.8)	1.3	0.9	(0.5)
Operating restructuring items	0.3	1.7	0.5	1.4	5.2
Other (income) expense ⁽¹⁾	(0.7)	-	(0.1)	0.1	0.2
Finance costs	1.9	0.9	2.2	5.6	2.0
Current income tax expense (recovery)	(9.6)	6.2	(0.8)	(9.6)	14.3
Deferred income tax expense (recovery)	2.6	(0.5)	0.3	2.9	10.1
Adjusted EBITDA	<u>\$ (16.6)</u>	<u>\$ 32.3</u>	<u>\$ 15.1</u>	<u>\$ 16.6</u>	<u>\$ 125.5</u>
Adjusted EBITDA margin					
Total revenue	\$ 141.6	\$ 292.5	\$ 310.3	\$ 727.6	\$ 911.9
Adjusted EBITDA	(16.6)	32.3	15.1	16.6	125.5
Adjusted EBITDA margin	-11.7%	11.0%	4.9%	2.3%	13.8%
Net debt to capitalization					
Net debt					
Total debt, net of deferred financing costs	\$ 112.0	\$ -	\$ 119.4		
Cash and cash equivalents	(5.1)	(42.8)	(5.3)		
Net debt (cash)	<u>\$ 106.9</u>	<u>\$ (42.8)</u>	<u>\$ 114.1</u>		
Capitalization					
Net debt (cash)	\$ 106.9	\$ (42.8)	\$ 114.1		
Add: Equity	519.1	586.6	546.7		
Capitalization	<u>\$ 626.0</u>	<u>\$ 543.8</u>	<u>\$ 660.8</u>		
Net debt to capitalization	17.1%	-	17.3%		

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.

Accounting Policies and Standards

Please refer to Note 3 of our unaudited condensed consolidated interim financial statements for the three and nine months ended September 30, 2019 for further information on the new accounting standards referenced below.

New Accounting Standards

The Company has adopted IFRS 16, *Leases* (“IFRS 16”), with a date of initial application of January 1, 2019, using a modified retrospective approach. Under the modified retrospective approach, the cumulative effect of initial application has been recognized in retained earnings at January 1, 2019, and comparative information has not been restated and continues to be reported under IAS 17, *Leases*.

On transition to IFRS 16, the Company elected to apply a practical expedient to grandfather the assessment of which transactions are leases. IFRS 16 only applies to contracts that were previously recognized as leases. Contracts that were not recognized as leases under IAS 17 were not reassessed for whether there is a lease. As such, the definition of a lease under IFRS 16 was applied only to contracts entered into or changed after January 1, 2019.

As a result of the adoption of IFRS 16, the Company recorded right of use assets (“ROU assets”) and lease liabilities of \$17.0 million as at January 1, 2019. During the nine months ended September 30, 2019, the Company recognized amortization of \$3.3 million in operating income and finance costs of \$2.3 million relating to these ROU assets and lease liabilities. The adoption of IFRS 16 had no impact on the overall cash flow of the Company.

Accounting Standards Not Yet Applied

A number of new and amended IFRS standards are not yet effective for the year ended December 31, 2019 and have not been applied in preparing these interim financial statements. None of the standards are currently considered by the Company to be significant or likely to have a material impact on future financial statements.

Critical Accounting Estimates

For a review of significant management judgements affecting financial results and critical accounting estimates, please see our 2018 Annual Report, which can be found on SEDAR at www.sedar.com. There were no changes to critical accounting estimates during the nine months ended September 30, 2019.

Financial Instruments and Other Instruments

We use various financial instruments to reduce the impact of movement in foreign exchange rates on our net income. Please see our Management Discussion and Analysis for the year ended December 31, 2018 for a further discussion on our use of financial instruments. There were no changes to our use of financial instruments during the nine months ended September 30, 2019.

Off-Balance Sheet Arrangements

Other than short-term and low-value leases for which recognition exemptions are applied under IFRS 16, the Company does not have any off-balance sheet arrangements as at September 30, 2019.

Related Party Transactions

Other than transactions in the normal course of business with the Board of Directors and key management personnel, the Company had no transactions between related parties in the nine months ended September 30, 2019.

Risks and Uncertainties

The business of the Company is subject to a number of risks and uncertainties, including those described in the 2018 Annual Report which can be found on SEDAR at www.sedar.com. Any of the risks and uncertainties described in the above-noted document could have a material adverse effect on our operations and financial condition and cash flows and, accordingly, should be carefully considered in evaluating Western's business. Except as set forth in this MD&A, there were no additional risks and uncertainties identified during the nine months ended September 30, 2019.

Evaluation of Disclosure Controls and Procedures

There have been changes in the Company's internal controls over financial reporting ("ICFR") during the second quarter of 2019 resulting from the Company's implementation of a new enterprise resource planning system ("ERP"); however, there have been no changes in the Company's ICFR in the nine months ended September 30, 2019 that have materially affected, or are reasonably likely to materially affect, its ICFR.

During the ERP implementation, the Company's internal controls were maintained or supplemented by controls added during the system implementation and related business process improvements. The Company performed fulsome system conversion testing to ensure that prior period balances were translated into the new system completely and accurately.

Outstanding Share Data

As of November 6, 2019, there were 375,197,166 common shares of the Company issued and outstanding.

We have reserved 30,000,000 of our Shares for issuance upon the exercise of options granted under our incentive stock option plan. During the nine months ended September 30, 2019, 2,487,950 options were granted, 600,000 previously granted options were exercised and 476,118 options were forfeited. As of November 6, 2019, 13,377,189 options were outstanding under our incentive stock option plan.

Additional Information

Additional information relating to the Company and its operations, including the Company's Annual Information Form, can be found on SEDAR at www.sedar.com.

Management's Discussion and Analysis – Appendix A

Summary of Selected Results for the Last Eight Quarters

(millions of Canadian dollars except per share amounts and where noted)	2019			2018				2017	
	Q3	Q2	Q1	Q4	Q3	Q2	Q1	Q4	
Average Exchange Rate – USD to CAD	1.321	1.337	1.329	1.322	1.307	1.291	1.265	1.271	
Average Exchange Rate – CAD to USD	0.757	0.748	0.752	0.756	0.765	0.775	0.791	0.787	
Financial Performance									
Revenue									
Lumber	\$ 109.7	\$ 233.6	\$ 218.9	\$ 230.9	\$ 238.2	\$ 255.6	\$ 228.2	\$ 207.3	
Logs	27.4	63.3	41.2	36.2	33.6	49.0	41.2	56.6	
By-products	4.5	13.4	15.6	17.7	20.7	23.2	22.2	19.2	
Total revenue	\$ 141.6	\$ 310.3	\$ 275.7	\$ 284.8	\$ 292.5	\$ 327.8	\$ 291.6	\$ 283.1	
Adjusted EBITDA	\$ (16.6)	\$ 15.1	\$ 18.1	\$ 18.0	\$ 32.3	\$ 50.2	\$ 43.0	\$ 38.9	
Adjusted EBITDA margin	-11.7%	4.9%	6.6%	6.3%	11.0%	15.3%	14.7%	13.7%	
Earnings per share:									
Net income, basic and diluted	\$ (0.05)	\$ -	\$ -	\$ 0.02	\$ 0.04	\$ 0.07	\$ 0.05	\$ 0.05	
Operating Statistics									
Lumber^{(1),(2)}									
Production	mmfbm	48	206	202	200	221	234	209	184
Shipments - Total	mmfbm	90	211	203	218	212	235	215	201
Price	\$/mfbm	\$ 1,219	\$ 1,107	\$ 1,078	\$ 1,059	\$ 1,124	\$ 1,088	\$ 1,061	\$ 1,031
Logs⁽³⁾									
Net production	000 m ³	21	1,250	922	1,135	815	1,348	1,029	1,099
Saw log purchases	000 m ³	84	238	208	212	197	305	265	343
Log availability	000 m ³	105	1,488	1,130	1,347	1,012	1,653	1,294	1,442
Shipments	000 m ³	246	536	369	369	308	471	361	494
Price ⁽⁴⁾	\$/m ³	\$ 110	\$ 112	\$ 112	\$ 98	\$ 109	\$ 104	\$ 114	\$ 107
Share Repurchases and Dividends									
Shares repurchased (millions)		3.8	3.8	3.9	4.9	4.6	1.6	0.6	1.1
Shares repurchased		\$ 1.9	\$ 6.6	\$ 7.4	\$ 9.1	\$ 10.4	\$ 4.1	\$ 1.6	\$ 2.7
Dividends paid		\$ 8.4	\$ 8.5	\$ 8.6	\$ 8.7	\$ 8.8	\$ 8.9	\$ 7.9	\$ 7.9

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

(1) Includes Columbia Vista acquired February 1, 2019.

(2) "mmfbm" = millions of board feet; "mfbm" = thousands of board feet.

(3) Coastal BC business only. Net production is sorted log production, net of residuals and waste. Log availability is net production plus saw log purchases.

(4) The log revenue used to determine average price per cubic metre has been reduced by the associated shipping costs arranged in the respective periods to enable comparability of unit prices.

(5) Third quarter 2019 results reflect the curtailment of coastal BC operations due to the Strike.

In a normal operating year there is seasonality to the Company's operations with higher lumber sales in the second and third quarters when construction activity, particularly in the US, has historically tended to be higher. Logging activity may also vary depending on weather conditions such as rain, snow and ice in the winter and the threat of forest fire in the summer.