



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 month period ended March 31, 2020

Amended and Restated

Notice to Reader

Please be advised that the following change was made to the management's discussion and analysis ("MD&A") of financial condition and results of operations for the three months ended March 31, 2020 as previously filed.

- i. The replacement of the table presented in the Financial Position and Liquidity section below. The table now presents Financial Position and Liquidity data and replaces data that was relevant to the Non-GAAP measures section.

The unaudited condensed consolidated interim financial statements for the three months ended March 31, 2020, filed on May 6, 2020, were unaffected by the presentation change for the MD&A table replacement. Other than as expressly set forth above, the revised MD&A does not purport to update or restate the information in the original MD&A or reflect any events that occurred after the date of the filing of the original MD&A.

Management's Discussion & Analysis

The following 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 months ended March 31, 2020, 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 months ended March 31, 2020, and our audited annual consolidated financial statements and the notes thereto and Management's Discussion and Analysis for the year ended December 31, 2019 (the "2019 Annual Report"), which can be found on SEDAR at www.sedar.com.

The Company has prepared the consolidated financial statements for the three months ended March 31, 2020, 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.

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", "expect", "anticipate", "plan", "intend", "believe", "seek", "should", "may", "likely", "continue" and similar references to future periods. Forward-looking statements in this MD&A include, but are not limited to, statements relating to: our current intent, belief or expectations with respect to: domestic and international market conditions, demands and growth; economic conditions; our growth, marketing, product, wholesale, operational and capital allocation plans and strategies, including but not limited to payment of a dividend; fibre availability and regulatory developments; the impact of the Coronavirus pandemic; the timing or anticipated closing of the Transaction; and the selling of additional incremental ownership interest in TFL 44 LP and APD LP 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, relations with First Nations groups, the availability of fibre and allowable annual cut, development and changes in laws and regulations affecting the forest industry, changes in the price of key materials for our products, changes in opportunities, future developments in the Coronavirus pandemic 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 May 6, 2020.

¹ Earnings Before Interest, Tax, Depreciation and Amortization

Summary of Selected Quarterly Results ⁽¹⁾

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

	Q1 2020	Q1 2019	Q4 2019
Summary Information			
Revenue			
Lumber	\$ 83.2	\$ 218.9	\$ 66.1
Logs	12.9	41.2	12.1
By-products	3.0	15.6	1.9
Total revenue	\$ 99.1	\$ 275.7	\$ 80.1
Freight	\$ 6.3	\$ 23.1	\$ 5.1
Export tax	4.0	9.2	3.4
Stumpage	1.0	12.3	-
Adjusted EBITDA	\$ (17.4)	\$ 18.1	\$ (18.1)
Adjusted EBITDA margin	-17.6%	6.6%	-22.6%
Operating income (loss) prior to restructuring and other items	\$ (28.4)	\$ 5.7	\$ (29.6)
Net income (loss)	(21.0)	1.9	(29.2)
Basic and diluted earnings (loss) per share (in dollars)	(0.06)	-	(0.09)
Operating Information			
Lumber⁽²⁾			
Lumber Shipments – millions of board feet			
Western Red Cedar	21	46	18
Japan Specialty	15	30	13
Niche	11	30	4
Commodity	17	97	9
Total	64	203	44
Lumber Production – millions of board feet	61	202	34
Lumber Price – per thousand board feet	\$ 1,300	\$ 1,078	\$ 1,502
Wholesale Lumber Shipments - millions of board feet	10	6	10
Logs⁽³⁾			
Log Shipments – thousands of cubic metres			
Export	1	11	22
Domestic	100	264	70
Pulp	40	94	43
Total	141	369	135
Net production – thousands of cubic metres ⁽⁴⁾	167	922	21
Saw log purchases – thousands of cubic metres	141	208	34
Log Price – per cubic metre ⁽⁵⁾	\$ 91	\$ 112	\$ 87
Illustrative Lumber Average Price Data⁽⁶⁾			
	Price Basis		
Grn WRC #2 Clear & Btr 4x6W RL (\$C)	c.i.f. dest. N Euro	\$ 4,500	\$ 4,689 \$ 4,478
Grn WRC Deck Knotty 2x6 RL S4S	Net f.o.b. Mill	\$ 1,362	\$ 1,364 \$ 1,340
Grn WRC #2 & Btr AG 6x6 RL	Net f.o.b. Mill	\$ 2,346	\$ 2,245 \$ 2,291
Coast Grn WRC Std&Btr NH 3/4x4 RL S1S2E	Net f.o.b. Mill	\$ 1,095	\$ 1,100 \$ 1,095
Grn Hem Baby Squares Merch 4-1/8x4-1/8 13' S4S	c.&f. dest. Japan	\$ 809	\$ 950 \$ 827
Grn Dfir Baby Squares Merch 4-1/8x4-1/8 RL S4S	c.&f. dest. Japan	\$ 1,005	\$ 1,153 \$ 1,035
KD White Fir Shop Moulding&Btr C&Btr 5/4 S2S	Net f.o.b. Mill	\$ 1,090	\$ 1,080 \$ 1,085
Grn Dfir (Portland) #1&Btr 100% FOHC 6x6 Rough	Net f.o.b. Mill	\$ 1,268	\$ 1,321 \$ 1,234
Hemlock Lumber 2x4 (40x90) Metric RG Utility	c.i.f. dest. Shanghai	\$ 425	\$ 425 \$ 397
Average Exchange Rate – CAD to USD		0.744	0.752 0.758
Average Exchange Rate – CAD to JPY		81.09	82.92 82.37

(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 FEA China Bulletin.

Summary of First Quarter 2020 Results

First quarter results were significantly impacted by strike action (the “Strike”) by the United Steelworkers Local 1-1937 (“USW”), the gradual restart of certain Strike-curtailed British Columbia (“BC”) operations, and the negative impacts of the novel Coronavirus pandemic (“COVID-19”) on markets and production. As a result, our BC operations operated on a limited basis in the quarter.

We took steps during the Strike to mitigate the impact on our customers, business and cash flows by actively selling unencumbered inventories and drawing down working capital. On February 15, 2020, USW members voted in support of a tentative agreement to replace the collective agreement that expired on June 14, 2019, resulting in the end of the Strike. For more details on the labour dispute, refer to the “*Labour Relations Update*” section.

Following the Strike, we performed the necessary safety and maintenance procedures before commencing a gradual restart of certain Strike-curtailed BC operations. Upon restart, our manufacturing productivity was impacted by the consumption of lower quality log inventory that degraded due to the duration of the Strike. Operating efficiency improved through March as we improved the mix of our log and lumber inventories.

We curtailed certain operations for one-week in late March to implement enhanced health and safety protocols and to re-evaluate market conditions arising from COVID-19. For more details on these health and safety measures, refer to the “*COVID-19*” section.

Adjusted EBITDA for the first quarter of 2020 was negative \$17.4 million, as compared to positive EBITDA of \$18.1 million from the same period last year. Operating loss prior to restructuring and other items was \$28.4 million, as compared to operating income of \$5.7 million in the same period last year.

Our near-term focus remains on ensuring the health and safety of our employees, managing our balance sheet, and servicing our customers.

Sales

Lumber and log sales volume and revenue were impacted by the Strike and COVID-19. Lumber revenue in the first quarter was \$83.2 million, a decrease of 62.0% from the same period last year. Lumber shipment volumes of 64 million board feet were 68.5% lower than the same period last year due to the Strike and COVID-19. We continued to process logs at custom cut facilities and execute on our wholesale lumber strategy, to service our customers and to mitigate Strike impacts. We increased wholesale lumber shipments as compared to the same period last year. Our United States (“US”) based Columbia Vista division continued to perform in line with our expectations and has been a positive addition to our business and product mix.

Our average realized lumber pricing increased 20.6% from the same period last year, as the result of an improved specialty product mix and a weaker Canadian dollar (“CAD”) to US dollar (“USD”). Specialty lumber represented 73% of first quarter shipments compared to 52% in the same period last year. Although the average CAD-USD foreign exchange rate declined just 1% over the comparative period, significant foreign exchange volatility in March 2020 resulted in a 5% reduction in the closing exchange rate period over period.

Log revenue was \$12.9 million in the first quarter of 2020, a decrease of 68.7% from the same period last year, due to limited log production during the Strike and retaining inventory to restock our supply chain through March 2020.

By-product revenue was \$3.0 million, a decrease of 80.8% as compared to the same period last year as most of our BC coastal operations were curtailed for a majority of the first quarter due to the Strike.

Operations

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

An incremental \$13.8 million in Strike-related operating expense was recognized in the first quarter, including curtailment costs during the Strike, production inefficiencies on start-up and additional safety and maintenance procedures required to resume operations. Operating expense was also negatively impacted by \$2.9 million of incremental timberlands provisions, including for aged log inventory and silviculture expense. We also incurred \$1.1 million of COVID-19 related operating expenses in March 2020.

Lumber production of 61 million board feet was 69.8% lower than the same period last year. Incremental production from our US-based Columbia Vista division, acquired in February 2019, and volumes from our custom cut program were more than offset by the curtailment of our BC operations due to the Strike.

We produced 167,000 cubic meters of logs from our BC coastal operations in the first quarter of 2020 compared to production of 922,000 cubic metres in the same quarter of last year. First quarter log production in 2020 was impacted as all our USW-certified timberlands operations were curtailed during the Strike.

BC coastal saw log purchases were 141,000 cubic metres, a 32.2% decrease from the same period last year. Reduced saw log purchases resulted from extremely low BC coastal harvest activity and volumes generated from our joint venture arrangements.

Freight expense decreased by \$16.8 million from the same period last year due to lower shipment volumes.

First quarter adjusted EBITDA and operating income included \$4.0 million of countervailing duty (“CVD”) and anti-dumping duty (“AD”), as compared to \$9.2 million in the same period last year. Duty expense declined as a result of reduced US-destined lumber shipment volumes.

Selling and Administration Expense

First quarter selling and administration expense was \$6.4 million in 2020 as compared to \$8.8 million in the first quarter of 2019, due to lower share-based and performance compensation expense and as a result of minimizing expenses during the Strike.

Finance Costs

Finance costs were \$2.2 million, compared to \$1.5 million in the same period last year, primarily due to a comparatively higher average outstanding debt and a higher average interest rate applicable in 2020.

Income Taxes

Lower operating earnings led to an income tax recovery of \$8.4 million being recognized in the first quarter of 2020, as compared to income tax expense of \$0.8 million in the same quarter of last year. The Company is exploring all opportunities to accelerate receipt of its \$16.7 million income tax receivable.

Net Income (Loss)

Net loss for the first quarter of 2020 was \$21.0 million, as compared to net income of \$1.9 million for the same period last year. Results were significantly impacted by the Strike, the restart of Strike-curtailed BC operations and COVID-19.

Sale of Ownership Interests in Limited Partnerships

On March 16, 2020, Western announced it had reached an agreement whereby Huumiis Ventures Limited Partnership (“HVLP”), a limited partnership beneficially owned by Huu-ay-aht First Nations, will acquire a majority ownership interest in TFL 44 Limited Partnership (“TFL 44 LP”) and an ownership interest in a newly formed limited partnership that will own the Alberni Pacific Division Sawmill (“APD Sawmill”) for total consideration of \$36.2 million (the “Transaction”).

TFL 44 LP holds certain assets in Port Alberni, British Columbia, including Tree Farm Licence 44 and other associated assets and liabilities. HVLP will acquire an incremental 44% ownership interest in TFL 44 LP from Western for \$35.2 million. On completion of the Transaction, HVLP will own 51% of TFL 44 LP and Western will own 49% of TFL 44 LP. Western may sell other area First Nations, including HVLP, a further incremental ownership interest of up to 26% in TFL 44 LP, under certain conditions. Western and TFL 44 LP will enter into a long-term fibre agreement to continue to supply Western’s British Columbia coastal manufacturing operations, which have undergone significant capital investment over the past several years.

Western will transfer its APD Sawmill into a limited partnership (“APD LP”) along with certain other assets and liabilities. HVLP will acquire a 7% ownership interest in APD LP from Western for \$1.0 million, and subject to further negotiations, HVLP will have an option to purchase an incremental ownership interest in APD LP, which may include a majority interest.

The completion of the Transaction is subject to satisfaction of customary closing conditions, financing, and certain third-party consents, including approval by the BC Provincial Government and the Huu-ay-aht First Nations People’s Assembly. The Transaction is anticipated to close in the third quarter of 2020 as COVID-19 restrictions have delayed the administration of certain closing conditions.

Dividend & Capital Allocation Update

Quarterly Dividend

In response to the global economic impacts of COVID-19 on our business and sector, Western is suspending its quarterly dividend until further notice. We believe that this is a prudent decision in order to maintain financial flexibility and liquidity due to the global uncertainty resulting from COVID-19.

The Board of Directors will continue to review the Company's dividend on a quarterly basis. Any decision to declare and pay dividends in the future will be made at the discretion of our Board of Directors, after considering our operating results, financial condition, cash requirements, financing agreement restrictions and other factors our Board may deem relevant.

Capital Expenditures

Due to COVID-19 and its impact on global markets and operating conditions, we plan to incur only safety, environmental, maintenance and committed capital expenditures in the near-term. Strategic and discretionary capital projects will remain on hold until there is greater operational certainty. We will continue to evaluate opportunities to invest strategic capital in jurisdictions that create the opportunity to grow long-term shareholder value, but in the near-term will be prioritizing liquidity and financial flexibility.

Normal Course Issuer Bid

On August 2, 2019, we renewed our 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.

In the three months ended March 31, 2020, the Company did not repurchase any common shares. As at May 6, 2020, 18,763,888 common shares remain available to be purchased under the current NCIB. The NCIB expires on August 7, 2020.

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.

Health and safety protocols currently being enforced include travel restrictions; self-isolation instructions for those who have travelled, are ill, exhibiting symptoms of COVID-19 or have come in direct contact with someone with COVID-19; implementing physical distancing measures; restricting site access to essential personnel and activities; increasing cleaning and sanitization in workplaces; and where possible, providing those who can work from home the ability to exercise that option. We continue to monitor and review the latest guidance from health officials and experts to ensure our protocols meet the current required standards.

In response to the impacts of the COVID-19 pandemic, the Company also curtailed its BC manufacturing facilities for up to a one-week period effective March 23, 2020. For more details on curtailments, refer to the "*Operations Curtailments*" section.

State of Emergency declarations and other restrictions relating to travel, business operations and isolation have been made by governing bodies in the regions that Western operates and sells its products. Western's business activities have been designated an essential service in Canada and the US, and 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. In addition, governments in Canada and the US have announced various financial relief programs for businesses. We continue to analyze whether Western can apply for any of the programs to help mitigate the financial impacts of COVID-19.

With the potential negative impacts to the global economy from COVID-19 and with dynamic global economic conditions, our near-term focus remains on maintaining financial flexibility to manage our business during this uncertain time while protecting the health and safety of our employees and contractors and

servicing our customers. For more information on the risks relating to COVID-19, refer to “*Risks and Uncertainties*” in the notes to our condensed consolidated interim financial statements for the three months ended March 31, 2020.

Operations Curtailments

On March 22, 2020, the Company announced it was temporarily curtailing its manufacturing facilities operating in BC for up to a one-week period effective March 23, 2020. After implementing enhanced health and safety protocols and re-evaluating operating conditions, the Company resumed all operations in late March, except at our Ladysmith, Cowichan Bay and Somass sawmills.

On May 4, 2020, we restarted production at our Cowichan Bay sawmill, which had remained curtailed after the end of the Strike due to limited log supply. The continued operation of our Cowichan Bay sawmill is dependent on log supply and market conditions.

Our Ladysmith sawmill, which remained curtailed after the end of the Strike, is expected to continue to remain curtailed due to insufficient log supply.

Our Somass sawmill remains indefinitely curtailed as a result of a fibre supply deficit arising from years of tenure takebacks and government land use decisions, and rising costs associated with the US Softwood Lumber dispute.

As of May 6, 2020, our other manufacturing and timberlands are actively operating based on market demand.

Labour Relations Update

On February 6, 2020, the BC Minister of Labour appointed Special Mediators to work with the Company and the USW for a period of 10 days to determine if a negotiated settlement could be reached.

On February 10, 2020, the Company announced that terms of a tentative collective agreement had been reached, subject to a ratification vote by USW membership.

On February 15, 2020, Western announced that USW members voted in support of the tentative agreement to replace the collective agreement that expired on June 14, 2019. The new 5-year collective agreement is effective from June 15, 2019 and expires on June 14, 2024.

The new agreement provides for general wage increases of 3%, 2%, 2%, 3% and 2.5%, respectively, in each of the five years of the agreement. The new agreement also provides for improvements to health and welfare benefits and clarifies the application of Western’s Alcohol and Drug Policy to USW members. Western has maintained its management rights to operate alternate shifts while agreeing to an enhanced shift review process. The agreement also provides the Company with additional operational flexibility in its Timberlands operations through the ability to introduce additional USW contractors to ensure it is meeting its Annual Allowable Cut requirements.

For a comprehensive history of the Strike please see “*Employees and Labour Relations*” in our MD&A for the year ended December 31, 2019 under the heading “*Risks and Uncertainties*”.

BC Government Forest Policies Update

During 2019, the BC Provincial Government (the “Province”) introduced various policy initiatives that will impact the BC forest sector regulatory framework as part of their Coastal Revitalization Initiative. For additional details on these policy initiatives please see “*Regulatory Risks*” in our MD&A for the year ended December 31, 2019 under the heading “*Risks and Uncertainties*”.

On January 21, 2020, the Province announced changes to the Manufactured Forest Products Regulation (“Regulation”) effective July 1, 2020. The amendments to the Regulation require lumber that is made from Western Red Cedar (“WRC”) or cypress (yellow cedar) to be fully manufactured to be eligible for export. Fully manufactured is defined as lumber that will not be kiln-dried, planed or re-sawn at a facility outside of BC and is subject to certain exemptions. The Province is working with industry stakeholders to develop exemptions to meet its stated objective and has formed a working group with key industry representatives to help develop the exemption process. We continue to collaboratively engage with the Province to ensure that the desired outcome is met without unintended consequences to our global customers. The impact that the amendments to this Regulation may have on our operations cannot be determined at this time.

Financial Position and Liquidity

(millions of Canadian dollars except where otherwise noted)

	Q1 2020	Q1 2019	Q4 2019
Selected Cash Flow Items			
Operating Activities			
Net income (loss)	\$ (21.0)	\$ 1.9	\$ (29.2)
Amortization	11.0	11.3	12.4
Income taxes paid	-	(15.1)	-
Other	(8.7)	2.2	(1.3)
Subtotal	(18.7)	0.3	(18.1)
Change in non-cash working capital	6.2	(9.5)	24.9
Cash provided by (used in) operating activities	\$ (12.5)	\$ (9.2)	\$ 6.8
Investing Activities			
Additions to property, plant and equipment	\$ (0.8)	\$ (14.5)	\$ (1.4)
Additions to capital logging roads	(0.7)	\$ (3.2)	(0.2)
Purchase of Columbia Vista	-	(37.7)	-
Proceeds from non-controlling interest	-	7.0	-
Other	1.0	0.7	2.4
Cash provided by (used in) investing activities	\$ (0.5)	\$ (47.7)	\$ 0.8
Financing Activities			
Draw on credit facility	\$ 23.5	\$ 77.0	\$ 1.3
Dividends	(8.4)	(8.6)	(8.5)
Share repurchases	-	(7.4)	-
Other	(2.0)	(1.8)	(3.4)
Cash provided by (used in) financing activities	\$ 13.1	\$ 59.2	\$ (10.6)
Increase (decrease) in cash	\$ 0.1	\$ 2.3	\$ (3.0)
Summary of Financial Position			
Cash and cash equivalents	\$ 2.2	\$ 10.7	\$ 2.1
Current assets	214.4	313.1	188.9
Current liabilities	81.0	132.6	48.6
Total debt, net of deferred financing costs	139.2	83.1	113.4
Net debt ⁽¹⁾	137.0	72.4	111.3
Equity, excluding non-controlling interest	459.6	564.4	481.8
Total liquidity ⁽²⁾	113.5	175.7	136.9
Financial ratios:			
Current assets to current liabilities	2.65	2.36	3.89
Net debt to capitalization ⁽³⁾	23.0%	11.4%	18.8%

(1) Net debt 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 used in operating activities during the first quarter of 2020 was \$12.5 million as compared to cash used of \$9.2 million in the same period last year. We reduced our non-cash working capital by \$6.2 million in the quarter to partly offset significantly reduced cash from operations resulting from the Strike.

Cash used in investing activities was \$0.5 million during the first quarter of 2020, as compared to \$47.7 million during the same period last year which included \$37.7 million for our Columbia Vista acquisition. We reduced our capital spending in order to manage cash flow during the Strike and to address uncertainty caused by COVID-19. Capital expenditures were partially offset by cash receipts of \$1.0 million from the sale of certain non-core assets.

Cash provided by financing activities was \$13.1 million in the first quarter of 2020, as compared to \$59.2 million in the same period last year. We returned \$8.4 million to shareholders through quarterly dividends and did not repurchase any common shares under our NCIB during the quarter.

Our total liquidity was \$113.5 million as of March 31, 2020, as compared to \$136.9 million at the end of the 2019. Liquidity is comprised of cash and cash equivalents of \$2.2 million and unused availability under the credit facility of \$111.3 million. Based on our current forecasts, we expect sufficient liquidity will be available to meet our obligations in 2020. The Company was in compliance with all of its financial covenants as at March 31, 2020.

Strategy and Outlook

Western's long-term business objective is to create superior value for shareholders by building a margin-focused specialty 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, 2019.

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.

During the first quarter of 2020, we reached marketing and vendor purchase agreements with certain customers that will increase our access to the North American Home Centre and Pro-Dealer sales channels. We expect this strategy to provide Western with greater access to the growing repair and remodel lumber segment.

Our Columbia Vista division continues to perform in line with our expectations and has been a positive addition to our business and product mix. We continued to develop and evaluate growth opportunities for our wholesale lumber business.

Market Outlook

The onset of the COVID-19 pandemic brought to a standstill what was a promising start to the 2020 North American building season. Government actions to limit the spread of the virus, including the complete shutdown of construction in some jurisdictions, caused significant demand disruptions. In addition, country-wide shutdowns have significantly restricted access to many of our high-value offshore markets. In contrast to the challenges faced in North America and Europe, lumber and log demand has improved in China as the country emerged from its COVID-19 lockdown.

Strong market sentiment for WRC products at the beginning of the year has faded and demand has slowed due to COVID-19 containment measures. WRC lumber consumption from the Home Centre channel has been impacted less than other distribution channels.

In Japan, demand for Douglas fir and BC coastal Hemlock products has remained steady due in part to reduced lumber supply from Europe. Price realizations have been supported by a weaker CAD relative to the USD.

Demand for industrial Niche products and products targeted to the treating segment have remained strong. We expect pricing and demand to remain steady, provided there are no additional COVID-19 related disruptions.

Export logistics have been challenged due to the limited number of in-bound shipping containers arriving in North America. To mitigate export logistics risks we are utilizing both container and break-bulk shipping modes to ensure continued supply to our customers.

We expect domestic log and by-product prices to remain steady due to limited supply. Log supply on the BC coast is expected to remain constrained due to a combination of high harvest costs and uncertain markets relating to COVID-19.

As we look forward, the COVID-19 outbreak has led to near term market volatility and reduced long-term business visibility. We plan to mitigate the increased volatility by leveraging our diversified market and product offerings and flexible operating platform. Our price realizations should be supported by the relatively weak CAD-USD exchange rate. We will continue to align our production volumes to match market demand.

Softwood Lumber Dispute and US Market Update

The US application of duties on Canadian lumber imports 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. For a comprehensive history of the softwood lumber trade dispute and related North American Free Trade Agreement challenge proceedings, please refer to “*Risks and Uncertainties – Softwood Lumber Dispute*” in our Management’s Discussion and Analysis for the year ended December 31, 2019.

Western expensed \$4.0 million of export duties in the first quarter of 2020, comprised of CVD and AD at a combined rate of 20.23% on all lumber it sold into the US. On February 3, 2020, the US Department of Commerce (“DoC”) issued preliminary revised rates in the CVD and AD first administrative review of shipments for the years ended December 31, 2017 and 2018. The combined preliminary revised rates were 8.37% for 2017 and 8.21% for 2018. The DoC may revise these rates between preliminary and final determination. On April 24, 2020, the DoC announced a COVID-19 administrative review extension that is expected to delay the final rate determination until late September 2020. Cash deposits continue at the current rate of 20.23% until the final determinations are published, at which time the 2018 rate will apply to US-destined lumber sales.

The Canadian government’s appeal of the US International Trade Commission determination that softwood lumber products from Canada materially injured US producers has been delayed due to COVID-19.

At March 31, 2020, Western had US\$72.6 million of cash on deposit with the US Department of Treasury in respect of these softwood lumber duties.

Including wholesale lumber shipments, our sales to the US market represented approximately 27% of our total revenue in 2019. 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 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:

	Q1 2020	Q1 2019	Q4 2019
<i>(millions of Canadian dollars except where otherwise noted)</i>			
Adjusted EBITDA			
Net income (loss)	\$ (21.0)	\$ 1.9	\$ (29.2)
Add:			
Amortization	11.0	11.3	12.4
Changes in fair value of biological assets, net	-	1.0	1.4
Operating restructuring items	0.4	0.6	2.1
Other (income) expense ⁽¹⁾	(1.6)	0.9	2.8
Finance costs	2.2	1.5	2.2
Current income tax expense (recovery)	(0.1)	0.8	(3.4)
Deferred income tax recovery	(8.3)	-	(6.6)
Adjusted EBITDA	\$ (17.4)	\$ 18.1	\$ (18.1)
Adjusted EBITDA margin			
Total revenue	\$ 99.1	\$ 275.7	\$ 80.1
Adjusted EBITDA	(17.4)	18.1	(18.1)
Adjusted EBITDA margin	-17.6%	6.6%	-22.6%
Net debt to capitalization			
Net debt			
Total debt, net of deferred financing costs	\$ 139.2	\$ 83.1	\$ 113.4
Cash and cash equivalents	(2.2)	(10.7)	(2.1)
Net debt	\$ 137.0	\$ 72.4	\$ 111.3
Capitalization			
Net debt	\$ 137.0	\$ 72.4	\$ 111.3
Add: Equity	459.6	564.4	481.8
Capitalization	\$ 596.6	\$ 636.8	\$ 593.1
Net debt to capitalization	23.0%	11.4%	18.8%

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.

Critical Accounting Estimates

For a review of significant management judgements affecting financial results and critical accounting estimates, please see our 2019 Annual Report, which can be found on SEDAR at www.sedar.com. There were no changes to critical accounting estimates during the three months ended March 31, 2020.

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, 2019 for a further discussion on our use of financial instruments. There were no changes to our use of financial instruments during the three months ended March 31, 2020.

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 March 31, 2020.

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 three months ended March 31, 2020.

Risks and Uncertainties

The business of the Company is subject to several risks and uncertainties, including those described in the 2019 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 and the notes to our condensed consolidated interim financial statements, there were no additional risks and uncertainties identified during the three months ended March 31, 2020.

Evaluation of Disclosure Controls and Procedures

There have been no changes in the Company's internal controls over financial reporting ("ICFR") during the three months ended March 31, 2020, that have materially affected, or are reasonably likely to materially affect, its ICFR.

Outstanding Share Data

As of May 6, 2020, 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 three months ended March 31, 2020, 5,260,670 options were granted, no previously granted options were exercised and no options were forfeited. As of May 6, 2020, 18,317,799 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)	2020	2019				2018			
	Q1	Q4	Q3	Q2	Q1	Q4	Q3	Q2	
Average Exchange Rate – USD to CAD	1.344	1.320	1.321	1.337	1.329	1.322	1.307	1.291	
Average Exchange Rate – CAD to USD	0.744	0.758	0.757	0.748	0.752	0.756	0.765	0.775	
Financial Performance									
Revenue									
Lumber	\$ 83.2	66.1	109.7	233.6	218.9	\$ 230.9	\$ 238.2	\$ 255.6	
Logs	12.9	12.1	27.4	63.3	41.2	36.2	33.6	49.0	
By-products	3.0	1.9	4.5	13.4	15.6	17.7	20.7	23.2	
Total revenue	\$ 99.1	80.1	141.6	310.3	275.7	\$ 284.8	\$ 292.5	\$ 327.8	
Adjusted EBITDA	\$ (17.4)	\$ (18.1)	\$ (16.6)	\$ 15.1	\$ 18.1	\$ 18.0	\$ 32.3	\$ 50.2	
Adjusted EBITDA margin	-17.6%	-22.6%	-11.7%	4.9%	6.6%	6.3%	11.0%	15.3%	
Earnings (loss) per share:									
Net income (loss), basic and diluted	\$ (0.06)	\$ (0.09)	\$ (0.05)	\$ -	\$ -	\$ 0.02	\$ 0.04	\$ 0.07	
Operating Statistics									
Lumber^{(1),(2)}									
Production	mmfbm	61	34	48	206	202	200	221	234
Shipments - Total	mmfbm	64	44	90	211	203	218	212	235
Price	\$/mfbm	\$ 1,300	\$ 1,502	\$ 1,219	\$ 1,107	\$ 1,078	\$ 1,059	\$ 1,124	\$ 1,088
Logs⁽³⁾									
Net production	000 m ³	167	21	21	1,250	922	1,135	815	1,348
Saw log purchases	000 m ³	141	34	84	238	208	212	197	305
Log availability	000 m ³	308	55	105	1,488	1,130	1,347	1,012	1,653
Shipments	000 m ³	141	135	246	536	369	369	308	471
Price ⁽⁴⁾	\$/m ³	\$ 91	\$ 87	\$ 110	\$ 112	\$ 112	\$ 98	\$ 109	\$ 104
Share Repurchases and Dividends									
Shares repurchased (millions)		-	-	1.2	3.8	3.9	4.9	4.6	1.6
Shares repurchased	\$	-	\$ -	\$ 1.9	\$ 6.6	\$ 7.4	\$ 9.1	\$ 10.4	\$ 4.1
Dividends paid	\$	8.4	\$ 8.5	\$ 8.4	\$ 8.5	\$ 8.6	\$ 8.7	\$ 8.8	\$ 8.9

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) Results for the periods Q1 2020, Q4 2020 and Q3 2020 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. This seasonality generally results in the Company increasing working capital utilization through its second quarter as it builds log inventory during optimal harvest conditions and builds lumber inventory in advance of seasonally high lumber demand.