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, 2018

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 months ended March 31, 2018 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, 2018, and our audited annual consolidated financial statements and management's discussion and analysis for the year ended December 31, 2017 (the "2017 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, 2018 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 EBITDA[1]. 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 a number of items that affect our net income. Adjusted EBITDA and adjusted EBITDA margin are not measures of financial performance under IFRS, and should not be considered as alternatives to measures of performance under IFRS. Moreover, because all companies do not calculate adjusted EBITDA in the same manner, adjusted EBITDA and adjusted EBITDA margin calculated by Western may differ from similar measures calculated by other companies. A reconciliation between the Company's net income as reported in accordance with IFRS and adjusted EBITDA is included in Appendix A to this report.

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 shareholders' equity. Current assets to current liabilities is defined as total current assets divided by total current liabilities. These key performance indicators are non-GAAP financial measures that do not have a standardized meaning and may not be comparable to similar measures used by other issuers. They are not recognized by IFRS; however, they are meaningful in that they indicate the Company's ability to meet 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 "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 primarily with respect to market and general economic conditions, future costs, expenditures, 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, 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 disruptions, natural disasters, relations with First Nations groups, changes in laws, the availability of allowable annual cut, regulations or public policy, 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 May 2, 2018.

[1] Earnings Before Interest, Tax, Depreciation and Amortization

Summary of Selected Quarterly Results (1)

(millions of dollars except per share amounts and where otherwise noted)		Q1 2018	Q1 2017	Q4 2017
Summary Information				
Revenue				
Lumber		$ 228.2	$ 225.6	$ 207.3
Logs		41.2	45.5	56.6
By-products		22.2	16.6	19.2
Total revenue		$ 291.6	$ 287.7	$ 283.1
Adjusted EBITDA		$ 43.0	$ 34.0	$ 38.9
Adjusted EBITDA margin		14.7%	11.8%	13.7%
Operating income prior to restructuring items and other income		$ 32.6	$ 23.9	$ 30.3
Net income for the period		21.7	16.2	19.0
Basic and diluted earnings per share (in dollars)		$ 0.05	$ 0.04	$ 0.05
Operating Information				
Lumber				
Lumber Shipments – millions of board feet				
Western Red Cedar		54	65	54
Japan Specialty		36	41	38
Niche		18	24	15
Commodity		107	95	94
Total		215	225	201
Lumber Production – millions of board feet		209	209	184
Lumber Price – per thousand board feet		$ 1,061	$ 1,003	$ 1,031
Logs				
Log Shipments – thousands of cubic metres				
Export		17	98	84
Domestic		289	195	262
Pulp		55	72	147
Total		361	364	494
Net production – thousands of cubic metres(2)		1,029	908	1,099
Sawlog purchases – thousands of cubic metres		257	231	343
Log Price – per cubic metre(3)		$ 114	$ 116	$ 107
Illustrative Lumber Price Data(4)	**Price Basis**			
Grn WRC #2 Clear & Btr 4x6W RL ($C)	c.i.f. dest. N Euro	$ 5,017	$ 4,378	$ 4,950
Grn WRC Deck Knotty 2x6 RL S4S	Net f.o.b. Mill	$ 1,525	$ 1,358	$ 1,528
Grn WRC #2 & Btr AG 6x6 RL	Net f.o.b. Mill	$ 1,963	$ 1,599	$ 1,878
Grn Hem Baby Squares Merch 4-1/8x4-1/8 13' S4S	c.&f. dest. Japan	$ 800	$ 735	$ 800
Grn Dfir Baby Squares Merch 4-1/8x4-1/8 RL S4S	c.&f. dest. Japan	$ 1,108	$ 985	$ 1,055
KD White Fir Shop Moulding&Btr C&Btr 5/4 S2S	Net f.o.b. Mill	$ 1,061	$ 1,060	$ 1,060
Grn Dfir (Portland) #1&Btr 100% FOHC 6x6 Rough	Net f.o.b. Mill	$ 1,323	$ 917	$ 1,165
Hemlock Lumber 2x4 (40x90) Metric RG Utility(5)	c.i.f. dest. Shanghai	$ 469	$ 413	$ 466

(1) Included in Appendix A is a table of selected results from the last eight quarters.
(2) Net production is sorted log production, net of residuals and waste.
(3) 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.
(4) Source: Random Lengths. $USD/Mfbm, except where noted.
(5) Source: China Bulletin.

Summary of First Quarter 2018 Results

We delivered first quarter adjusted EBITDA of $43.0 million in 2018, overcoming US lumber export duties of $9.7 million and rising stumpage costs. Operating income prior to restructuring items and other income increased to $32.6 million from $23.9 million in the same period last year. We leveraged improved log inventories to support higher sawmill uptime which delivered lower manufacturing costs.

Revenue

Lumber revenue was $228.2 million, compared to $225.6 million in the first quarter of 2017, as rising price realizations offset lower sales volumes. Strong global lumber demand drove a 6% increase in lumber price realizations despite a weaker sales mix and the impact of a stronger Canadian dollar (“CAD”), which was 4% higher on average against the United States dollar (“USD”). Commodity lumber increased to 50% of total lumber shipments in the first quarter of 2018, from 42% in the same quarter last year. The first quarter of 2017 included a higher mix of specialty lumber as we expedited the sale of US-bound lumber in anticipation of the application of export duties in April 2017.

First quarter log revenue was $41.2 million in 2018, a decrease of $4.3 million from the same period due to a weaker sales mix and the suspension of our export log sales program to supply our coastal sawmills.

By-products revenue increased to $22.2 million in the first quarter of 2018, from $16.6 million in the same period in 2017. Improved pulp markets drove a 36% increase in chip sales price realizations, which more than offset the impact of a stronger CAD in 2018.

Operating Costs

Lumber production was 209 million board feet, consistent with the first quarter of 2017 and 14% higher than the fourth quarter of 2017. In addition to our production volume, we provided 14 million board feet equivalent of custom cut manufacturing services for a key pulp customer in the first quarter of 2018. Increased sawmill uptime, the benefits of our margin improvement programs and a heavier mix of commodity lumber drove lower manufacturing costs quarter-over-quarter.

First quarter log production was 1,029,000 cubic metres, 13% higher than the same period last year, due to improved winter operating conditions. Rising stumpage rates and increased production from higher cost operations drove a 5% increase in harvest costs, which more than offset benefits of our simplified log sort optimization and other timberlands cost savings initiatives.

Low market log availability driven by poor operating conditions in 2017 and high coastal log export volumes have distorted coastal log market pricing, which serves as a primary input to coastal stumpage rates. As a result, first quarter 2018 stumpage rates have increased more than expected. The Provincial Government has raised concerns with export log sales which we anticipate may prompt favourable policy changes in support of supply for domestic sawmill manufacturing.

We supplemented our internal log supply with saw log purchases of 257,000 cubic metres, an 11% increase from the same quarter last year. Constrained domestic log supply led to higher market pricing for purchased logs.

Freight expense decreased by $5.8 million as compared to the first quarter of 2017, due to reduced export log freight expense and lower lumber sales volume. A stronger CAD largely offset rising USD-denominated fuel surcharges.

Western’s results for the first quarter of 2018 include $9.7 million of export duty expense, comprised of countervailing duty (“CVD”) and anti-dumping duty (“AD”), whereas no duties were applicable in the first quarter of 2017. We leveraged our margin-focused sales strategy by directing lumber sales to alternative markets to limit the impacts of duty on our business.

Selling and Administration Expense

First quarter selling and administration expense was $8.6 million in 2018 as compared to $8.4 million in the same period last year. Incremental expense was primarily due to investments in foundational systems and process improvements to support our growth strategy, as well as increased performance related compensation.

Net Income

Net income for the first quarter of 2018 was $21.7 million, as compared to $16.2 million for the same period of 2017. Improved revenue and operating margin drove an increased net income that was partly offset by export lumber duties and higher operating restructuring items.

Operating Restructuring Items

Included in $2.2 million of operating restructuring items in the first quarter of 2018 were $1.0 million in severance and related expenses attributable to ongoing business optimization initiatives, $0.6 million relating to the indefinite curtailment of our Somass sawmill, and $0.4 million incurred to retrain employees affected by the closure of the Englewood train announced November 7, 2017. We incurred $0.5 million in operating restructuring items in the first quarter of 2017.

Our Somass sawmill remains indefinitely curtailed as a result of rising costs associated with the US Softwood Lumber dispute and a fibre supply deficit arising from years of tenure takebacks and land use decisions. We are evaluating options to create a sustainable, long-term solution for the site, and we are considering the input of government, First Nations and other stakeholders.

Income Taxes

Current income tax expense of $0.1 million and deferred income tax expense of $8.0 million were recognized in net income in the first quarter of 2018, primarily relating to operating earnings. Total income tax expense was $6.3 million in the same quarter last year.

We continue to receive deferred treatment of Canadian income taxes due to outstanding non-capital loss carryforwards, which we expect to fully utilize in 2018.

Financial Position and Liquidity

(millions of dollars except where otherwise noted)	Q1 2018	Q1 2017	Q4 2017
Selected Cash Flow Items			
Operating Activities			
Net income	$ 21.7	$ 16.2	$ 19.0
Amortization	9.8	8.6	9.4
Other	8.9	8.3	3.5
Subtotal	40.4	33.1	31.9
Change in non-cash working capital	5.2	34.8	(28.4)
Cash provided by (used in) operating activities	$ 45.6	$ 67.9	$ 3.5
Investing Activities			
Additions to property, plant and equipment	$ (22.6)	$ (6.1)	$ (19.0)
Additions to capital logging roads	(2.1)	(3.3)	(3.5)
Other	0.1	0.4	0.1
Cash provided by (used in) investing activities	$ (24.6)	$ (9.0)	$ (22.4)
Financing Activities			
Repayment of debt	$ -	$ (35.0)	$ -
Dividends	(7.9)	(7.9)	(7.9)
Share repurchases	(1.6)	-	(2.7)
Other	0.1	(0.4)	(0.4)
Cash provided by (used in) investing activities	$ (9.4)	$ (43.3)	$ (11.0)
Increase (decrease) in cash	$ 11.6	$ 15.6	$ (29.9)
Summary of Financial Position			
Cash and cash equivalents	$ 46.9	$ 34.6	$ 35.3
Current assets	314.5	274.0	292.5
Current liabilities	126.9	117.7	107.8
Total debt	-	-	-
Net debt (cash)(1)	(46.9)	(34.6)	(35.3)
Shareholders' equity	574.4	530.5	562.7
Total liquidity (2)	280.9	268.7	269.3
Financial ratios:			
Current assets to current liabilities	2.48	2.33	2.71
Net debt to capitalization (3)	-	-	-

(1) Net debt (cash) is defined as the sum of long-term debt, current portion of long-term debt, revolving credit facility, less cash and cash equivalents.
(2) Total liquidity comprises cash and cash equivalents, and available credit under the Company's revolving credit facility and revolving term loan.
(3) Capitalization comprises net debt and shareholders' equity.

In the first three months of 2018, we invested $24.6 million in capital including the acquisition of operating assets in Arlington, Washington; returned $7.9 million to shareholders through quarterly dividends; repurchased shares equivalent to $1.6 million; and, increased our cash balance by $11.6 million.

Cash provided by operating activities during the first quarter of 2018 was $45.6 million, as compared to $67.9 million during the first quarter of 2017. We leveraged improved winter operating conditions in the first quarter of 2018 to replenish our log inventory volume. Cash provided by operating activities in the first quarter of 2017 was supplemented by a significant reduction in working capital due to reduced log inventory.

Cash used in investing activities was $24.6 million during the first quarter of 2018, as compared to $9.0 million invested during the same period of 2017. We invested $13.3 million in strategic capital in the first quarter, including $11.6 million related to the acquisition of our distribution and processing centre in Arlington, Washington. Our strategic capital program is discussed in more detail in the “Strategy and Outlook” section.

Cash used in financing activities was $9.4 million during the first quarter of 2018, as compared to cash used in financing activities of $43.3 million during the same period of 2017. Incremental cash used in financing activities in the comparative period reflects the repayment of all outstanding debt.

Liquidity

Total liquidity increased to $280.9 million at March 31, 2018, from $269.3 million at the end of 2017. Liquidity is comprised of cash and cash equivalents of $46.9 million, unused availability under the secured revolving credit facility of $124.0 million, and $110.0 million available under the revolving term loan facility. Based on our current forecasts, we expect sufficient liquidity will be available to meet our obligations in 2018.

Capital Allocation

Dividend Increase

On May 2, 2018, we announced a 12.5% increase in our quarterly dividend from $0.02 per Share to $0.0225 per Share. The quarterly dividend increase is effective immediately and is payable June 15, 2018 to shareholders of record on June 1, 2018. This dividend qualifies as an “eligible dividend” for Canadian income tax purposes.

Normal Course Issuer Bid

On August 2, 2017, we announced a normal course issuer bid permitting us to purchase and cancel up to 19,778,383 of our Common Shares (“Shares”) or approximately 5% of our Shares issued and outstanding.

During the three months ended March 31, 2018, we repurchased 623,435 Shares for cancellation at an average price of $2.59. We have purchased and cancelled a total of 1,702,435 Shares under the normal course issuer bid at an average price of $2.53 per Share, or $4.3 million in aggregate.

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 producing and selling high-value specialty products for global markets. We seek to manage our business with a focus on operating cash flow and maximizing the value of our fibre resource through the production cycle, from the planning of our logging operations to the production, marketing, sale and delivery of our log and lumber products. We routinely evaluate our performance using the measure 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, 2017.

Market Outlook

The gradual improvement in US new home construction, and the continued strength of the repair and renovation segment, combined with the increased use of lumber in China are expected to continue to drive demand for our log and lumber products. We expect near-term pricing to be positively influenced by the spring building season.

North American demand for our Western Red Cedar (“WRC”) products continues to be supported by robust repair and renovation spending. Pricing for our targeted specialty products is expected to remain strong. As anticipated, lumber pricing in Japan has improved due to a combination of steady demand and low inventories. Demand and pricing for our Niche products is expected to move higher as markets adjust to the ongoing application of US export lumber duties.

The domestic saw log market remains undersupplied despite a 28% increase in coastal log production over the first quarter of 2017, as reported by the Province of BC's Harvest Billing System. Strong domestic saw log demand is expected to support pricing despite seasonally increased production as we move through the second quarter. Demand for small-diameter saw logs and pulp logs will remain strong as pulp mills seek additional sources of fibre to capitalize on resilient pulp markets.

Softwood Lumber Dispute and US Market Update

On January 3, 2018, US Department of Commerce ("DoC") published amended final determinations, resulting in reduced, final CVD and AD rates of 14.19% and 6.04% respectively for "all other" Canadian lumber producers including Western.

During the first quarter of 2018, we expensed $6.8 million of CVD and $2.9 million of AD for a total of $9.7 million, as compared to nil in the first quarter of 2017. To March 31, 2018, we have paid total CVD and AD of $26.5 million since the latest imposition of export lumber duties by the United States beginning in April 2017.

Our shipments to the US market are predominantly high-value, appearance grade lumber, representing less than 25% of Western's total revenue in 2017. Continued strong demand and a lack of supply has supported ongoing improvements in our specialty lumber product pricing, partly offsetting the impact of duties.

The US application of duties continues a long-standing pattern of US protectionist action against Canadian lumber producers. We disagree with the US trade determination and the inclusion of specialty lumber products in this commodity lumber focused dispute.

Our recent acquisition of a distribution and processing centre in Arlington, Washington is expected to assist in mitigating the damaging effects of duties on our products destined for the US market while increasing US market sales. We intend to preserve our strong balance sheet and leverage our flexible operating platform to continue to overcome 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, 2017.

Strategic Capital Program Update

We continue to implement a strategic capital program that is 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.

In the first quarter of 2018, we acquired a distribution and processing centre in Arlington, Washington and commenced the first phase of planned capital upgrades at that facility. We continued to make advancements with the auto-grading component of our Duke Point planer rebuild. We also made significant progress in the start-up of the timber deck enhancements at our Chemainus sawmill. That timber deck investment will support incremental production of high-value, appearance-grade timbers. In addition, we began a number of small, high-return capital projects at our other operations.

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 by the Company as benchmark measurements of our own operating results and as benchmarks relative to our competitors. 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. These non-GAAP measures do not have any standardized meaning prescribed by IFRS and are therefore unlikely to 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 the Company's unaudited interim consolidated financial statements prepared in accordance with IFRS:

(millions of dollars except where otherwise noted)	Q1 2018	Q1 2017	Q4 2017
Adjusted EBITDA			
Net income	$ 21.7	$ 16.2	$ 19.0
Add:			
Amortization	9.8	8.6	9.4
Changes in fair value of biological assets, net	0.5	1.5	(0.7)
Operating restructuring items	2.2	0.5	3.1
Finance costs	0.5	0.7	0.5
Other (income) expense [1]	0.1	0.2	(0.5)
Deferred income tax (recovery) expense	8.0	6.1	8.2
Current income tax (recovery) expense	0.1	0.2	-
Adjusted EBITDA	$ 43.0	$ 34.0	$ 38.9
Adjusted EBITDA margin			
Total revenue	$ 291.6	$ 287.7	$ 283.1
Adjusted EBITDA	43.0	34.0	38.9
Adjusted EBITDA margin	14.7%	11.8%	13.7%
Net debt to capitalization			
Net debt			
Total debt	$ -	$ -	$ -
Cash and cash equivalents	(46.9)	(34.6)	(35.3)
Net debt (cash)	$ (46.9)	$ (34.6)	$ (35.3)
Capitalization			
Net debt (cash)	$ (46.9)	$ (34.6)	$ (35.3)
Add: Shareholders' equity	574.4	530.5	562.7
Capitalization	$ 527.5	$ 495.9	$ 527.4
Net debt to capitalization	-	-	-

(1) Other (income) expense, net of changes in fair market value less cost to sell of biological assets.
(2) Figures in the table above may not equal or sum to figures presented elsewhere due to rounding.

Included in the net income to adjusted EBITDA reconciliation for the fourth quarter of 2017 was $2.4 million of severance related to the closure of the Englewood train.

Accounting Policies and Standards

Please refer to Note 3 of our unaudited condensed consolidated interim financial statements for the three months ended March 31, 2018 for further information on the new accounting standards referenced below.

New Accounting Standards

The Company has adopted the following standards with a date of initial application of January 1, 2018, which had no significant impact on the Company's interim financial statements:

- IFRS 15, *Revenue from Contracts with Customers*
- IFRS 9, *Financial Instruments*

Accounting Standards Not Yet Applied

A number of new and amended IFRS standards are not yet effective for the year ended December 31, 2018 and have not been applied in preparing these interim financial statements. IFRS 16 *Leases* is considered by the Company to be the most significant of several pronouncements that may affect future financial statements. The Company intends to adopt IFRS 16 in its consolidated financial statements for the year commencing January 1, 2019. The extent of the impact of adoption of the standard has not yet been determined.

Critical Accounting Estimates

For a review of significant management judgements affecting financial results and critical accounting estimates, please see our 2017 Annual reporting, which can be found on SEDAR at www.sedar.com.

Risks and Uncertainties

The business of the Company is subject to a number of risks and uncertainties, including those described in the 2017 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.

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, 2018, that have materially affected or are reasonably likely to materially affect, its ICFR.

In the three months ended March 31, 2018, we completed the acquisition of a distribution and processing centre in Arlington, Washington, and we have completed introductory Western safety and controls training at the facility.

Outstanding Share Data

As of May 2, 2018, there were 394,812,657 Common Shares of the Company issued and outstanding.

We have reserved 20,000,000 of our Shares for issuance upon the exercise of options granted under our incentive stock option plan, and have requested shareholder approval at our upcoming annual meeting to reserve an additional 10,000,000 Shares for issuance upon the exercise of options granted under our incentive stock option plan. During the three months ended March 31, 2018, 1,235,788 options were granted and 660,000 previously granted options were exercised. As of May 2, 2018, 12,294,271 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 dollars except and where noted)		2018 Q1	2017 Q4	2017 Q3	2017 Q2	2017 Q1	2016 Q4	2016 Q3	2016 Q2
Average Exchange Rate – USD to CAD		1.265	1.271	1.253	1.345	1.323	1.334	1.305	1.288
Average Exchange Rate – CAD to USD		0.791	0.787	0.798	0.744	0.756	0.749	0.766	0.776
Financial Performance									
Revenue									
Lumber		$ 228.2	$ 207.3	$ 212.5	$ 212.8	$ 225.6	$ 220.7	$ 235.6	$ 221.0
Logs		41.2	56.6	55.5	57.2	45.5	55.1	70.0	64.2
By-products		22.2	19.2	17.2	17.4	16.6	17.2	17.1	16.6
Total revenue		$ 291.6	$ 283.1	$ 285.2	$ 287.4	$ 287.7	$ 293.0	$ 322.7	$ 301.8
Adjusted EBITDA		$ 43.0	$ 38.9	$ 32.6	$ 47.1	$ 34.0	$ 33.8	$ 35.7	$ 43.0
Adjusted EBITDA margin		14.7%	13.7%	11.4%	16.4%	11.8%	11.5%	11.1%	14.2%
Earnings per share:									
Net income, basic		$ 0.05	$ 0.05	$ 0.04	$ 0.06	$ 0.04	$ 0.09	$ 0.04	$ 0.06
Operating Statistics									
Lumber(1)									
Production	mmfbm	209	184	196	204	209	237	244	230
Shipments	mmfbm	215	201	220	194	225	231	252	232
Price	$/mfbm	$ 1,061	$ 1,031	$ 966	$ 1,097	$ 1,003	$ 955	$ 935	$ 953
Logs(2)									
Net production	000 m^3	1,029	1,099	911	1,091	908	919	1,153	1,321
Saw log purchases	000 m^3	257	343	327	249	231	337	415	497
Log availability	000 m^3	1,286	1,442	1,238	1,340	1,139	1,256	1,568	1,818
Shipments	000 m^3	361	494	369	436	364	493	651	521
Price(3)	$/$m^3$	$ 114	$ 107	$ 134	$ 122	$ 116	$ 104	$ 100	$ 112
Share Repurchases and Dividends									
Shares repurchased (millions)		0.6	1.1	-	-	-	-	-	-
Shares repurchased		$ 1.6	$ 2.7	$ -	$ -	$ -	$ -	$ -	$ -
Dividends paid		$ 7.9	$ 7.9	$ 7.9	$ 7.9	$ 7.9	$ 7.9	$ 7.9	$ 7.9

(1) "mmfbm" = millions of board feet; "mfbm" = thousands of board feet.
(2) Net production is sorted log production, net of residuals and waste. Log availability is net production plus saw log purchases.
(3) 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.

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

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.