



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 six month periods ended June 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 six months ended June 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 six months ended June 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 six months ended June 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 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 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 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, accounting standards, 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 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 August 1, 2019.

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)

	Q2 2019	Q2 2018	Q1 2019	YTD 2019	YTD 2018	
(millions of dollars except per share amounts and where otherwise noted)						
Summary Information						
Revenue						
Lumber	\$ 233.6	\$ 255.6	\$ 218.9	\$ 452.5	\$ 483.8	
Logs	63.3	49.0	41.2	104.5	90.2	
By-products	13.4	23.2	15.6	29.0	45.4	
Total revenue	\$ 310.3	\$ 327.8	\$ 275.7	\$ 586.0	\$ 619.4	
Freight	\$ 26.4	\$ 23.1	\$ 23.1	\$ 49.5	\$ 44.4	
Export tax	9.7	11.7	9.2	18.9	\$ 21.4	
Stumpage	14.2	17.6	12.3	26.5	28.0	
Adjusted EBITDA	\$ 15.1	\$ 50.2	\$ 18.1	\$ 33.2	\$ 93.2	
Adjusted EBITDA margin	4.9%	15.3%	6.6%	5.7%	15.0%	
Operating income prior to restructuring items and other income (expense)	\$ 1.4	\$ 39.7	\$ 5.7	\$ 7.1	\$ 72.3	
Net income (loss)	(0.7)	27.1	1.9	1.2	48.8	
Basic and diluted earnings per share (in dollars)	-	0.07	-	-	0.12	
Operating Information						
Lumber ⁽²⁾						
Lumber Shipments – millions of board feet ⁽³⁾						
Western Red Cedar	49	53	46	95	107	
Japan Specialty	40	35	30	70	70	
Niche	32	25	30	62	48	
Commodity	90	122	97	187	225	
Total	211	235	203	414	450	
Lumber Production – millions of board feet	206	234	202	408	443	
Lumber Price – per thousand board feet	\$ 1,107	\$ 1,088	\$ 1,078	\$ 1,093	\$ 1,075	
Logs ⁽⁴⁾						
Log Shipments – thousands of cubic metres						
Export	94	37	11	105	54	
Domestic	315	337	264	579	625	
Pulp	127	97	94	221	153	
Total	536	471	369	905	832	
Net production – thousands of cubic metres ⁽⁵⁾	1,250	1,348	922	2,172	2,377	
Saw log purchases – thousands of cubic metres	238	305	208	447	570	
Log Price – per cubic metre ⁽⁶⁾	\$ 112	\$ 104	\$ 112	\$ 112	\$ 109	
Illustrative Lumber Average Price Data ⁽⁷⁾						
	Price Basis					
Grn WRC #2 Clear & Btr 4x6W RL (\$C)	c.i.f. dest. N Euro	\$ 4,400	\$ 5,100	\$ 4,689	\$ 4,545	\$ 5,058
Grn WRC Deck Knotty 2x6 RL S4S	Net f.o.b. Mill	\$ 1,340	\$ 1,524	\$ 1,364	\$ 1,352	\$ 1,525
Grn WRC #2 & Btr AG 6x6 RL	Net f.o.b. Mill	\$ 2,245	\$ 2,113	\$ 2,245	\$ 2,245	\$ 2,038
Coast Grn WRC Std&Btr NH 3/4x4 RL S1S2E	Net f.o.b. Mill	\$ 1,095	\$ 1,180	\$ 1,100	\$ 1,098	\$ 1,180
Grn Hem Baby Squares Merch 4-1/8x4-1/8 13' S4S	c.&f. dest. Japan	\$ 884	\$ 995	\$ 950	\$ 917	\$ 898
Grn Dfir Baby Squares Merch 4-1/8x4-1/8 RL S4S	c.&f. dest. Japan	\$ 1,123	\$ 1,211	\$ 1,153	\$ 1,138	\$ 1,160
KD White Fir Shop Moulding&Btr C&Btr 5/4 S2S	Net f.o.b. Mill	\$ 1,080	\$ 1,078	\$ 1,080	\$ 1,080	\$ 1,070
Grn Dfir (Portland) #1&Btr 100% FOHC 6x6 Rough	Net f.o.b. Mill	\$ 1,264	\$ 1,398	\$ 1,321	\$ 1,292	\$ 1,361
Hemlock Lumber 2x4 (40x90) Metric RG Utility	c.i.f. dest. Shanghai	\$ 413	\$ 507	\$ 425	\$ 419	\$ 488
Average Exchange Rate – CAD to USD		0.748	0.775	0.752	0.750	0.783
Average Exchange Rate – CAD to JPY		82.17	84.55	82.92	82.54	85.05

(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.

(3) Comparative figures have been reclassified to conform to the current period's presentation, which reflects the reclassification of certain Niche products (Hemlock timbers and US-destined Yellow Cedar) from Commodity and Japan Specialty shipment totals.

(4) British Columbia business only.

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

(6) 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.

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

Summary of Second Quarter 2019 Results

Adjusted EBITDA for the second quarter of 2019 was \$15.1 million, as compared to \$50.2 million from the same period last year. Results were impacted by weakening markets which led to production curtailments. Operating income prior to restructuring items and other income decreased to \$1.4 million, as compared to \$39.7 million in the same period last year.

Sales

Lumber revenue of \$233.6 million, was 9% lower than the same period last year as the impact of market related curtailments in our Canadian operations more than offset the inclusion of a full quarter of sales from our Columbia Vista division.

Lumber shipment volumes decreased 10% due to weak markets which led to lower production and sales. Despite declining market pricing, our average realized lumber pricing increased 2%, as we increased our specialty product mix and benefited from a weaker Canadian dollar ("CAD") to United States dollar ("USD"). Specialty lumber represented 57% of second quarter shipments compared to 48% in the same period last year.

Western Red Cedar ("WRC") lumber shipments declined 8% compared to the same period last year, as poor weather impacted market demand. Japan lumber shipments increased 18%. The addition of Columbia Vista division led to an increase in Douglas fir product sales to Japan which more than offset weakness in sales of British Columbia ("BC") coastal Hemlock products. Hemlock market share in Japan continues to be challenged by subsidized Japanese domestic species. Niche lumber shipments increased 27% compared to the same period last year through expanded production at our Duke Point sawmill. Commodity lumber shipments declined 26% compared to same period last year as we reduced production due to weaker commodity markets in North America and China. We increased our direct sales of commodity lumber products to China by 31%, which helped mitigate weaker lumber pricing, compared to the same period last year.

Second quarter log revenue was \$63.3 million in 2019, an increase of 29% from the same period last year. Log revenue benefited from the resumption of our export log sales program and a stronger domestic log sales mix.

By-product revenue declined \$9.8 million compared to the same period last year as a result of lower BC coastal production and a 29% reduction in chip price realizations, due to a steep decline in global softwood pulp pricing. In addition, chip purchase-and-resale volume declined by 69%.

Operations

Lumber production of 206 million board feet was 12% lower than the same period last year. Incremental production from our US-based Columbia Vista division acquisition was more than offset by market related sawmill curtailments in our BC mills during the quarter. We responded to challenging economics resulting from weak commodity markets, high stumpage costs driven by export log prices, and the impacts of US softwood lumber duties by redirecting certain logs to our export log sales program and limiting commodity lumber production.

Second quarter per unit manufacturing costs were 14% higher than the same period last year, due to temporary mill curtailments and mix of operations. Manufacturing costs included \$1.8 million arising from temporary mill curtailments, and \$0.9 million incurred in the operating ramp-up of our Arlington division.

Log production from our BC coastal operations was 1,250,000 cubic metres, 7% lower than the same period last year. Decreased log production was primarily due to the curtailment of Englewood operations arising from ongoing harvest permitting challenges.

Our BC coastal per unit harvest costs increased by 11% from the same period last year, due to a mix of higher cost operations and increased sorting costs related to the resumption of our export log sales program. Per unit stumpage costs were 13% lower primarily due to the mix of species harvested and increased private timberland harvest on which no stumpage fee is incurred.

BC coastal saw log purchases were 238,000 cubic metres, a 22% decrease from the same period last year as we managed log purchases to lumber production.

Freight expense increased by \$3.3 million from the same period last year, due to the resumption of our export log sales program, an increase in our direct sales to China, and the inclusion of shipments from our Columbia Vista division.

Second quarter adjusted EBITDA and operating income included \$9.7 million of countervailing duty (“CVD”) and anti-dumping duty (“AD”), as compared to \$11.7 million in the same period last year. Duty expense declined as a result of reduced US-destined lumber shipment volumes.

Selling and Administration Expense

Second quarter selling and administration expense was \$8.3 million in 2019 as compared to \$9.3 million in the same period last year. The decrease was in part due to lower expenses related to systems upgrades and related training as compared to the same period last year. During the quarter we transitioned to a new financial system.

Finance Costs

Finance costs were \$2.2 million, compared to \$0.6 million in the same period last year, primarily due to a higher average outstanding debt balance in 2019, compared to none outstanding in 2018. The Company had drawn \$120.3 million on its credit facility as at June 30, 2019. See “*Financial Position and Liquidity*” for further information.

As a result of adopting IFRS 16, *Leases* on January 1, 2019, we recognized \$0.9 million of finance costs on lease payments. In comparative periods, leasing finance costs were recognized in operating income.

Net Income

Net loss for the second quarter of 2019 was \$0.7 million, as compared to net income of \$27.1 million for the same period last year. Net income was reduced by lower shipment volumes and higher operating expenses.

Summary of Year to Date 2019 Results

Adjusted EBITDA for the first six months of 2019 was \$33.2 million, as compared to \$93.2 million from the same period last year. Operating income prior to restructuring items and other income decreased to \$7.1 million from \$72.3 million, as compared to the same period last year.

Sales

Lumber revenue was \$452.5 million, which was 6% lower than the same period last year due to more challenging market conditions in the first half of 2019 which led to production curtailments. Despite declining market pricing, our average lumber price realizations increased, as we improved our specialty product mix and benefitted from a weaker CAD to USD. Specialty lumber represented 55% of year to date shipments compared to 50% in the same period last year.

Log revenue was \$104.5 million in the first half of 2019, an increase of 16% from the same period last year. Log revenue benefited from the resumption of our export log sales program in the second quarter. An improved domestic log sales mix offset the revenue impact of increased shipments of lower value pulp logs.

By-products revenue decreased to \$29.0 million in the first half of 2019, from \$45.4 million in the same period last year due to declining BC coastal chip prices, reduced chip purchase-and-resale volume, and lower production due to sawmill curtailments.

Operations

Lumber production of 408 million board feet, was 8% lower than the same period last year. Market-related sawmill curtailments led to lower production which more than offset the inclusion of results from our Columbia Vista division. Per unit manufacturing costs were higher than the same period last year, due to temporary mill curtailments, mix of operations and more challenging operating conditions in the first quarter of 2019.

Log production for the first half of 2019 was 2,172,000 cubic metres, 9% lower than the same period last year, due to the curtailment of our Englewood operations arising from ongoing harvest permitting challenges. Our per unit BC coastal harvest costs increased by 11% due to a mix of higher cost operations.

BC coastal saw log purchases were 447,000 cubic metres, a 22% decrease from the same period last year as we managed log purchases to production.

Freight expense increased by \$5.1 million as compared to same period last year with the resumption of our export log program in the second quarter of 2019, increased direct sales volumes to China and the inclusion of Columbia Vista, offsetting the decline in shipment volumes.

Adjusted EBITDA and operating income included \$18.9 million of countervailing duty (“CVD”) and anti-dumping duty (“AD”), as compared to \$21.4 million in the same period of 2018. Duty expense declined as a result of reduced US-destined lumber shipment volumes.

Selling and Administration Expense

Selling and administration expense for the first half of 2019 was \$17.1 million as compared to \$17.9 million in the same period last year. Greater share-based compensation expense was recognized in the prior period as a result of mark-to-market adjustments.

Finance Costs

Finance costs were \$3.7 million, compared to \$1.1 million in the first half 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 \$1.7 million of finance costs on lease payments in the first half of 2019. In comparative periods, leasing finance costs were recognized in operating income.

Net Income

Net income for the first half of 2019 was \$1.2 million, as compared to \$48.8 million for the same period last year. Net income was reduced by lower shipment volumes and higher operating expenses.

Columbia Vista Asset Acquisition

On February 1, 2019, we completed the asset acquisition of Columbia Vista Corporation and related entities’ operations in Vancouver, Washington. 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 Huu-ay-aht First Nations for gross proceeds of \$7.3 million. 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. As part of the agreement, we may sell Huu-ay-aht First Nations an incremental interest in TFL 44 LP subject to further negotiation.

Income Taxes

Lower operating earnings led to an income tax recovery of \$0.5 million being recognized in the second quarter of 2019, as compared to income tax expense of \$10.6 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.

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.

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 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 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 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 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, or to place conditions on the approval.

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.

Labour Relations Update

On July 1, 2019, the United Steelworkers Local 1-1937 (“USW”), the union representing approximately 1,500 of the Company’s hourly employees and 1,500 employees working for our timberland contractors in British Columbia, commenced a strike. The strike is ongoing for all of our USW certified manufacturing and timberlands operations. We continue to operate our Ladysmith sawmill, Value-Added remanufacturing facility and our Arlington and Columbia Vista divisions.

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 and have since made multiple requests to meet with the USW and a mediator. The USW served seventy-two hours’ notice of strike action on the Company, and some of its contractors, on June 28, 2019.

We have been working to negotiate a new collective agreement with the USW, as has been 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.

We have commenced our work stoppage contingency plan and are working to mitigate the impact of the strike on business partners and customers. Western is committed to reaching a reasonable agreement that respects the contributions of our employees and ensures we remain globally competitive.

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

Sawmill Curtailments

The lumber industry continues to face some of the most challenging operating conditions seen in over a decade, including declining lumber and chip prices and high log costs which are challenging the economics of our operations.

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, due to market conditions. Our Ladysmith sawmill was temporary curtailed for a two-week period beginning May 6, 2019 due 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 a temporary curtailment at our Ladysmith sawmill due to strike action taken by the USW which has impeded log supply to the mill. Subsequent to this announcement, the Labour Relations Board ruled these USW tactics to be illegal and ordered that they refrain from impeding the delivery of logs to the mill. The Ladysmith sawmill will continue to operate as long as there is adequate log supply and market support.

Financial Position and Liquidity

(millions of dollars except where otherwise noted)

	Q2 2019	Q2 2018	Q1 2019	YTD 2019	YTD 2018
Selected Cash Flow Items					
Operating Activities					
Net income (loss)	\$ (0.7)	\$ 27.1	\$ 1.9	\$ 1.2	\$ 48.8
Amortization	12.5	10.9	11.3	23.8	20.7
Income taxes paid	(8.0)	-	(15.1)	(23.1)	-
Other	0.7	10.6	2.2	2.9	19.5
Subtotal	4.5	48.6	0.3	4.8	89.0
Change in non-cash working capital	(13.9)	(21.7)	(9.5)	(23.4)	(16.5)
Cash provided by (used in) operating activities	\$ (9.4)	\$ 26.9	\$ (9.2)	\$ (18.6)	\$ 72.5
Investing Activities					
Additions to property, plant and equipment	\$ (8.5)	\$ (14.5)	\$ (14.5)	\$ (23.0)	\$ (25.5)
Additions to capital logging roads	(5.7)	(4.2)	(3.2)	(8.9)	(6.3)
Purchase of Arlington facility	-	-	-	-	(11.6)
Purchase of Columbia Vista	-	-	(37.7)	(37.7)	-
Proceeds from non-controlling interest	(0.8)	-	7.0	6.2	-
Other	0.1	0.2	0.7	0.8	0.3
Cash used in investing activities	\$ (14.9)	\$ (18.5)	\$ (47.7)	\$ (62.6)	\$ (43.1)
Financing Activities					
Draw on long-term debt	\$ 36.3	\$ -	\$ 77.0	\$ 113.3	\$ -
Dividends	(8.5)	(8.9)	(8.6)	(17.1)	(16.8)
Share repurchases	(6.6)	(4.1)	(7.4)	(14.0)	(5.7)
Other	(2.3)	(0.2)	(1.8)	(4.1)	(0.1)
Cash provided by (used in) financing activities	\$ 18.9	\$ (13.2)	\$ 59.2	\$ 78.1	\$ (22.6)
Increase (decrease) in cash	\$ (5.4)	\$ (4.8)	\$ 2.3	\$ (3.1)	\$ 6.8
Summary of Financial Position					
Cash and cash equivalents	\$ 5.3	\$ 42.1	\$ 10.7		
Current assets	333.7	345.4	313.1		
Current liabilities	136.4	148.2	132.6		
Total debt, net of deferred financing costs	119.4	-	83.1		
Net debt (cash) ⁽¹⁾	114.1	(42.1)	72.4		
Equity	546.7	589.1	564.4		
Total liquidity ⁽²⁾	133.9	276.1	175.7		
Financial ratios:					
Current assets to current liabilities	2.45	2.33	2.36		
Net debt to capitalization ⁽³⁾	0.17	-	0.11		

(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.

In the first six months of 2019, we invested \$69.6 million in capital, including \$37.7 million for the acquisition of the Columbia Vista assets. We returned \$17.1 million to shareholders through quarterly dividends, and repurchased \$14.0 million of our common shares for cancellation under our normal course issuer bid.

Cash used in operating activities during the second quarter of 2019 was \$9.4 million as compared to cash provided of \$26.9 million in the same period last year. Weak market conditions led to sawmill curtailments which resulted in lower cash from operating activities. In addition, we made tax payments of \$8.0 million in the second quarter of 2019 as compared to nil in the same period last year.

Cash used in investing activities was \$14.9 million during the second quarter of 2019, as compared to \$18.5 million invested during the same period last year. With Arlington infrastructure and equipment upgrades substantially complete, we commenced secondary processing at our Arlington facility and continue to ramp up production in the second quarter. We continue to evaluate opportunities to invest strategic capital in our business. Our strategic capital program is discussed in more detail under "Strategy and Outlook".

Cash provided by financing activities was \$18.9 million in the second quarter of 2019, which included drawings on our credit facilities of \$36.3 million. This compared to cash used for financing activities of \$13.2 million in the same period last year.

Total liquidity decreased to \$133.9 million at June 30, 2019, from \$175.7 million at the end of the first quarter. Liquidity is comprised of cash and cash equivalents of \$5.3 million and unused availability under the credit facility of \$128.7 million. Based on our current forecasts, we expect sufficient liquidity will be available to meet our obligations in 2019.

Capital Allocation

Normal Course Issuer Bid

On August 3, 2018, the Company renewed its Normal Course Issuer Bid (“NCIB”) permitting the purchase and cancellation of up to 19,662,439 of the Company’s common shares or approximately 5% of the common shares issued and outstanding as of August 3, 2018. In the three months ended June 30, 2019, the Company repurchased 3,755,561 common shares under the NCIB for \$6.6 million at an average price of \$1.91 per common share.

As at August 1, 2019, we have purchased 18,301,021 common shares for \$35.2 million at an average price of \$1.93 per common share under the current NCIB, representing approximately 5% of the total shares outstanding at the commencement of our current NCIB. 1,361,418 common shares remain available to be purchased under the current NCIB, which expires on August 7, 2019.

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 are progressing 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 acquisition provides us the opportunity to expand our Douglas fir specialty product offerings, particularly in Japan. To date, our Columbia Vista division has performed in line with our expectations and been a positive addition to our business and product mix. In the second 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 in the use of mass timber building technologies. In China, a government commitment to housing and economic stimulus should accelerate demand for lumber. Growing demand and the supply implications of North American sawmill curtailments is expected to benefit the industry long-term.

Despite positive long-term growth drivers, lumber markets have been 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. Recent lumber market volatility is expected to continue through the rest of 2019. Accordingly, we will continue to lever our flexible operating platform and specialty product mix to mitigate market conditions.

We anticipate a normal seasonal slowing of demand in our WRC segment. Pricing is likely to become more volatile as we move through the fall season.

In Japan, we expect demand to remain flat for our Douglas fir products, however increased competition from engineered wood products may pressure pricing. We expect continued market share erosion for BC coastal

Hemlock lumber in Japan due to increased competition from Japanese Government subsidized domestic species.

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

Commodity lumber markets are likely to remain volatile due to high supply chain inventories and stalled demand. We have had success in limiting commodity price volatility by increasing our direct sales volume to China.

We expect domestic saw log prices to gradually decline in response to lumber markets. Price declines may be somewhat mitigated by lower market log supply, as recent government initiatives that have increased harvest costs are expected to challenge harvest economics. 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 is anticipated to remain weak due to the declining trend in NBSK pulp pricing.

Strategic Capital Program Update

We continue to evaluate opportunities to invest strategic capital in our business 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 second quarter of 2019, we commenced secondary processing at our Arlington facility where we continue to ramp up production. We continue to make progress on small, high-return capital projects focused on debottlenecking our manufacturing operations. However, we have scaled back our strategic capital investments in the face of greater market uncertainty and unfavourable investment conditions in BC.

Softwood Lumber Dispute and US Market Update

Western's results for the second quarter of 2019 include \$9.7 million of export duty expense, comprised of CVD and AD expense. At June 30, 2019, Western had \$82.1 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 US trade determination and 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. 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. We do not expect a ruling until late 2019 or early 2020. If we are successful in our challenge, the NAFTA panel may instruct the US International Trade Commission to further investigate our like product claim consistent with the panel's findings.

On April 9, 2019, a World Trade Organization ("WTO") panel ruled on certain matters relating to the application of softwood lumber anti-dumping duties, concluding that the US violated international trade rules in the way it calculated anti-dumping duties. Included in the ruling, the WTO panel has 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.

US market sales represent less than 25% of Western's total revenue in 2018. Our acquisition of a distribution and processing centre in Arlington, Washington and the assets of Columbia Vista Corporation and related entities in Vancouver, Washington are expected to partially mitigate the damaging effects of duties on our products destined for the US market while increasing US market sales. 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:

	Q2 2019	Q2 2018	Q1 2019	YTD 2019	YTD 2018
<i>(millions of dollars except where otherwise noted)</i>					
Adjusted EBITDA					
Net income (loss)	\$ (0.7)	\$ 27.1	\$ 1.9	\$ 1.2	\$ 48.8
Add:					
Amortization	12.5	10.9	11.3	23.8	20.7
Changes in fair value of biological assets, net	1.3	(0.2)	1.0	2.3	0.3
Operating restructuring items	0.5	1.3	0.6	1.1	3.5
Other (income) expense ⁽¹⁾	(0.1)	0.1	0.9	0.8	0.2
Finance costs	2.2	0.6	1.5	3.7	1.1
Current income tax expense	(0.8)	8.0	0.8	-	8.1
Deferred income tax expense (recovery)	0.3	2.6	-	0.3	10.6
Adjusted EBITDA	\$ 15.1	\$ 50.2	\$ 18.1	\$ 33.2	\$ 93.2
Adjusted EBITDA margin					
Total revenue	\$ 310.3	\$ 327.8	\$ 275.7	\$ 586.0	\$ 619.4
Adjusted EBITDA	15.1	50.2	18.1	33.2	93.2
Adjusted EBITDA margin	4.9%	15.3%	6.6%	5.7%	15.0%
Net debt to capitalization					
Net debt					
Total debt, net of deferred financing costs	\$ 119.4	\$ -	\$ 83.1		
Cash and cash equivalents	(5.3)	(42.1)	(10.7)		
Net debt (cash)	\$ 114.1	\$ (42.1)	\$ 72.4		
Capitalization					
Net debt (cash)	\$ 114.1	\$ (42.1)	\$ 72.4		
Add: Equity	546.7	589.1	564.4		
Capitalization	\$ 660.8	\$ 547.0	\$ 636.8		
Net debt to capitalization	17.3%	-	11.4%		

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 six months ended June 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 six months ended June 30, 2019, the Company recognized amortization of \$1.7 million in operating income and finance costs of \$1.7 million relating to these ROU assets and lease liabilities.

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 six months ended June 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 six months ended June 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 June 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 six months ended June 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 six months ended June 30, 2019.

Evaluation of Disclosure Controls and Procedures

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

During the new enterprise resource planning system 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.

On February 1, 2019, Western completed the acquisition of certain assets of Columbia Vista Corporation and related entities located in Vancouver, Washington. As at June 30, 2019, Western has not fully assessed the relevant ICFR and design and disclosure controls and procedures related thereto, however based on due diligence performed as part of the acquisition, no material changes to the control environment are expected.

Outstanding Share Data

As of August 1, 2019, there were 375,277,766 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 six months ended June 30, 2019, 2,487,950 options were granted, 600,000 previously granted options were exercised and 476,119 options were forfeited. As of August 1, 2019, 13,377,188 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 per share amounts and where noted)		2019		2018				2017	
		Q2	Q1	Q4	Q3	Q2	Q1	Q4	Q3
Average Exchange Rate – USD to CAD		1.337	1.329	1.322	1.307	1.291	1.265	1.271	1.253
Average Exchange Rate – CAD to USD		0.748	0.752	0.756	0.765	0.775	0.791	0.787	0.798
Financial Performance									
Revenue									
Lumber		\$ 233.6	\$ 218.9	\$ 230.9	\$ 238.2	\$ 255.6	\$ 228.2	\$ 207.3	\$ 212.5
Logs		63.3	41.2	36.2	33.6	49.0	41.2	56.6	55.5
By-products		13.4	15.6	17.7	20.7	23.2	22.2	19.2	17.2
Total revenue		\$ 310.3	\$ 275.7	\$ 284.8	\$ 292.5	\$ 327.8	\$ 291.6	\$ 283.1	\$ 285.2
Adjusted EBITDA		\$ 15.1	\$ 18.1	\$ 18.0	\$ 32.3	\$ 50.2	\$ 43.0	\$ 38.9	\$ 32.6
Adjusted EBITDA margin		4.9%	6.6%	6.3%	11.0%	15.3%	14.7%	13.7%	11.4%
Earnings per share:									
Net income, basic and diluted		\$ -	\$ -	\$ 0.02	\$ 0.04	\$ 0.07	\$ 0.05	\$ 0.05	\$ 0.04
Operating Statistics									
Lumber^{(1),(2)}									
Production	mmfbm	206	202	200	221	234	209	184	196
Shipments - Total	mmfbm	211	203	218	212	235	215	201	220
Price	\$/mfbm	\$ 1,107	\$ 1,078	\$ 1,059	\$ 1,124	\$ 1,088	\$ 1,061	\$ 1,031	\$ 966
Logs⁽³⁾									
Net production	000 m³	1,250	922	1,135	815	1,348	1,029	1,099	910
Saw log purchases	000 m³	238	208	212	197	305	265	343	327
Log availability	000 m³	1,488	1,130	1,347	1,012	1,653	1,294	1,442	1,237
Shipments	000 m³	536	369	369	308	471	361	494	369
Price ⁽⁴⁾	\$/m³	\$ 112	\$ 112	\$ 98	\$ 109	\$ 104	\$ 114	\$ 107	\$ 134
Share Repurchases and Dividends									
Shares repurchased (millions)		3.8	3.9	4.9	4.6	1.6	0.6	1.1	-
Shares repurchased		\$ 6.6	\$ 7.4	\$ 9.1	\$ 10.4	\$ 4.1	\$ 1.6	\$ 2.7	\$ -
Dividends paid		\$ 8.5	\$ 8.6	\$ 8.7	\$ 8.8	\$ 8.9	\$ 7.9	\$ 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.

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.