



Western Forest Products®

Western Forest Products Inc.

2024 Annual Report

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 and year ended December 31, 2024, 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 audited annual consolidated financial statements and the notes thereto for the years ended December 31, 2024 and 2023, which can be found on SEDAR+ at www.sedarplus.ca. Unless otherwise noted, the information in this MD&A is updated to February 13, 2025.

The Company has prepared the consolidated financial statements for the years ended December 31, 2024 and 2023 in accordance with IFRS Accounting Standards, as issued by the International Accounting Standards Board. Amounts discussed herein are based on our audited annual consolidated 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 Earnings Before Interest, Tax, Depreciation and Amortization ("Adjusted EBITDA"). Adjusted EBITDA is defined as operating income prior to operating restructuring items and other income (expense), plus amortization of plant, equipment, right of use and timber licence 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 in the "Non-GAAP Financial Measures" section of this report.

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 and bank indebtedness 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, but 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 the past.

Return on capital employed ("ROCE") is also used in this MD&A as a key performance measure. ROCE is defined as adjusted EBITDA as a proportion of average capital employed. Average capital employed is defined as the average balance over a year of total assets less cash and cash equivalents, income tax receivable, duty receivable and related interest, deferred income tax assets, accounts payable and accrued liabilities and the current portions of lease liabilities, reforestation obligation and deferred revenue. ROCE is a non-GAAP financial measure that does not have a standardized meaning and may not be comparable to similar measures used by other issuers. ROCE is not recognized by IFRS, but is used to determine relative profitability after taking into account the amount of capital used.

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", "commit", "project", "estimate", "expect", "anticipate", "plan", "target", "forecast", "intend", "believe", "seek", "could", "should", "may", "likely", "continue", "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: domestic, North American and international market conditions, prices, demands and growth, including demands for our cedar products; economic conditions; legislative changes and policy initiatives; the softwood lumber dispute; the applicability and scope of tariffs and the expected timing thereof; our growth, marketing, production, wholesale, operational and capital allocation plans, investments and strategies, fibre availability and regulatory developments; changes to stumpage rates and the expected timing thereof; the impact of public health threats; the execution of our sales and marketing strategy; the completion of the sale of the APD facility; the development, completion and implementation of integrated resource management plans or forest landscape plan pilots by First Nations, including TFL 37 Forest Landscape Plan and Forest Operations Plan; determinations of allowable annual cut ("AAC") for the Company's Forest Licences and TFLs, including TFL 44 and TFL 19, and the expected timing thereof; the impact of the determination of a new AAC for North Island Timber Supply Area, the capacity of the Company's facilities and assets including its continuous dry kilns and the expected timing and cost of completion and commissioning of the Company's announced capital investments and capital expenditures, including the two new continuous dry kilns. 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 including inflation, international demand for forest products, the Company's ability to export its products, cost and availability of shipping carrier capacity, competition and selling prices, international trade disputes and sanctions, changes in foreign currency exchange rates, labour disputes and disruptions, ability to recruit workers, natural disasters, the impact of climate change, relations with First Nations groups, First Nations' claims and settlements, the availability of fibre and AAC, the ability to obtain operational permits, development and changes in laws and regulations affecting the forest industry, changes in the price of key materials for our products, changes in opportunities, information systems security 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.

Summary of Selected Quarterly and Annual Results ⁽¹⁾

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

Summary Information		Q4 2024	Q4 2023	Q3 2024	Annual 2024	Annual 2023
Revenue						
Lumber ⁽²⁾		\$ 214.3	\$ 178.3	\$ 189.9	\$ 817.1	\$ 781.6
Logs		46.5	51.1	39.9	188.0	180.9
By-products		9.7	9.9	9.1	41.7	39.8
Forestry services and other ⁽³⁾		2.7	7.3	2.8	17.1	15.2
Total revenue		273.2	246.6	241.7	1,063.9	1,017.5
Freight		17.3	16.3	16.4	69.1	75.6
Export tax expense		8.9	4.1	6.2	25.5	20.2
Export tax recovery		-	-	(1.0)	(1.0)	(4.3)
Stumpage		8.2	8.7	7.8	27.9	44.4
Adjusted EBITDA ⁽⁴⁾		\$ 14.4	\$ (1.2)	\$ (10.7)	\$ 8.9	\$ (29.9)
Adjusted EBITDA margin ⁽⁴⁾		5%	(0%)	(4%)	1%	(3%)
Operating loss prior to restructuring and other items		\$ (0.4)	\$ (14.4)	\$ (24.4)	\$ (46.4)	\$ (83.4)
Net loss		(1.2)	(14.3)	(19.6)	(34.5)	(70.1)
Loss per share, basic and diluted	\$ per share	(0.00)	(0.04)	(0.06)	(0.10)	(0.22)
Operating Information ⁽⁴⁾						
Lumber shipments ⁽²⁾⁽⁶⁾	mmfbm	146	136	138	588	588
Cedar	mmfbm	36	30	33	138	131
Japan Specialty	mmfbm	16	33	21	93	87
Industrial ⁽²⁾	mmfbm	24	19	19	88	85
Commodity	mmfbm	71	54	65	270	285
Lumber production ⁽²⁾	mmfbm	135	125	127	558	561
Lumber price, average ⁽²⁾	\$/mfbm	\$ 1,467	\$ 1,313	\$ 1,378	\$ 1,390	\$ 1,329
Wholesale lumber shipments	mmfbm	6	4	8	30	19
Log shipments	000 m ³	355	446	347	1,378	1,384
Domestic	000 m ³	260	271	230	1,024	993
Export	000 m ³	-	-	-	-	-
Pulp	000 m ³	95	175	117	355	391
Net production ⁽⁷⁾	000 m ³	673	718	659	2,768	2,952
Saw log purchases	000 m ³	234	200	215	750	675
Log price, average ⁽⁸⁾	\$/m ³	\$ 121	\$ 112	\$ 113	\$ 129	\$ 122
Illustrative Lumber Average Price Data ⁽⁹⁾						
Grn WRC #2 Clear & Btr 4x6W RL (\$C)	cif dest N Euro	\$ 8,108	\$ 8,550	\$ 8,100	\$ 8,217	\$ 8,588
Grn WRC Deck Knotty 2x6 RL S4S	Net fob Mill	\$ 1,431	\$ 1,077	\$ 1,368	\$ 1,266	\$ 1,264
Grn WRC #2 & Btr AG 6x6 RL	Net fob Mill	\$ 3,434	\$ 3,315	\$ 3,391	\$ 3,364	\$ 3,315
Coast Grn WRC Std&Btr NH 3/4x4 RL S1S2E	Net fob Mill	\$ 1,140	\$ 1,138	\$ 1,123	\$ 1,116	\$ 1,383
Grn Hem Baby Squares Merch 4-1/8x4-1/8 13'	c&f dest Japan	\$ 974	\$ 965	\$ 975	\$ 975	\$ 1,078
Grn Dfir Baby Squares Merch 4-1/8x4-1/8 RL S4S	c&f dest Japan	\$ 1,104	\$ 1,125	\$ 1,132	\$ 1,127	\$ 1,188
Grn Dfir (Portland) #1&Btr 100% FOHC 6x6 Rough	Net fob Mill	\$ 1,181	\$ 1,882	\$ 1,626	\$ 1,522	\$ 1,937
Hemlock Lumber 2x4 (40x90) Metric RG Utility	cif dest Shanghai	\$ 373	\$ 366	\$ 389	\$ 390	\$ 399
Coast KD Hem-Fir #2 & Btr 2x4	Net fob Mill	\$ 477	\$ 404	\$ 411	\$ 449	\$ 422
Average exchange rate – CAD to USD ⁽¹⁰⁾		0.715	0.735	0.733	0.730	0.741
Average exchange rate – CAD to JPY ⁽¹⁰⁾		108.89	108.57	109.23	110.50	103.99

(1) Included in *Appendix A* is a table of selected results from the last eight quarters. Figures in the table may not equal, sum or recalculate to figures presented in the table or elsewhere due to rounding. Log data reflects BC business only.

(2) Includes glue-laminated wood products.

(3) Forestry services and other include harvesting, roadbuilding, reforestation, planning and other services.

(4) Adjusted EBITDA and Adjusted EBITDA margin are non-GAAP financial measures. Refer to the *Non-GAAP Financial Measures* section of this document for more information on each non-GAAP financial measure.

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

(6) Includes wholesale lumber shipments.

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

(8) The average realized log price per cubic metre has been presented on a gross basis, which may include fee-in-lieu and shipping charges incurred on behalf of customers to facilitate sales to export markets.

(9) Sourced from Random Lengths (USD/Mfbm), except Hem Metric RG Utility that is from Forest Economic Advisors LLC China Bulletin.

(10) Canadian Dollar ("CAD"), United States Dollar ("USD"), Japanese yen ("JPY").

Summary of Fourth Quarter 2024 Results

We reported Adjusted EBITDA of \$14.4 million in the fourth quarter of 2024, as compared to negative \$1.2 million in the same period last year. Results in the fourth quarter of 2024 reflect higher lumber shipments and prices, a stronger USD to CAD average exchange rate, partially offset by higher export duty rates compared to the same period last year.

Net loss was \$1.2 million in the fourth quarter of 2024, as compared to \$14.3 million in the same period last year. Operating loss prior to restructuring and other items was \$0.4 million in the fourth quarter of 2024, as compared to \$14.4 million in the same period last year.

Sales

Lumber revenue was \$214.3 million in the fourth quarter of 2024 as compared to \$178.3 million in the same period last year. The increase of 20% was due to higher lumber shipment volumes and lumber prices and a stronger USD to CAD average exchange rate, partially offset by a weaker sales mix. Our average realized lumber price increased by 12% to \$1,467 per thousand board feet in the fourth quarter of 2024, as compared to \$1,313 per thousand board feet in the same period last year, due to improvement in prices in most lumber markets.

Specialty lumber shipments represented 52% of total lumber shipment volumes in the fourth quarter of 2024, as compared to 60% in the same period last year, primarily due to weaker Japanese market conditions. Commodity lumber shipment volumes increased by 31% compared to the same period last year on the strength of improved North American market demand.

Log revenue was \$46.5 million in the fourth quarter of 2024, as compared to \$51.1 million in the same period last year. The decrease of 9% was due to lower shipment volumes given lower harvest, partially offset by higher average domestic log prices and a stronger sales mix compared to the same period last year.

By-products revenue was \$9.7 million, as compared to \$9.9 million in the same period last year. The decrease of 2% was due to lower chip sales volumes, which were partially offset by an increase in chip prices.

Forestry services and other revenue were \$2.7 million, as compared to \$7.3 million in the same period last year. The decrease was due to reductions in harvesting and road building services provided to third parties as a result of project timing.

Operations

Lumber production was 135 million board feet in the fourth quarter of 2024, as compared to 125 million board feet in the same period last year. In both periods, we curtailed certain sawmill operations to match production to market demand and manage inventory levels. Sawmill cash conversion costs per thousand board feet were similar compared to the same period last year.

We harvested 673,000 cubic metres of logs from our BC coastal operations in the fourth quarter of 2024, as compared to 718,000 cubic metres in the same period last year. Log harvest reductions were partly offset by increased saw log purchases to match log volumes to our sawmill requirements.

Timberlands cash operating costs per cubic metre increased 2% compared to the same period last year primarily due to higher helicopter harvesting costs and higher average stumpage per cubic metre compared to the same period last year.

BC Coastal saw log purchases were 234,000 cubic metres in the fourth quarter of 2024, as compared to 200,000 cubic metres in the same period last year.

Freight expense was \$17.3 million in the fourth quarter of 2024 as compared to \$16.3 million in the same period last year. The increase of 6% was primarily due to increased lumber shipments, partially offset by a lower percentage of shipments to China and Japan.

We recorded \$8.9 million of countervailing duty ("CV") and anti-dumping duty ("AD") expense in the fourth quarter of 2024, as compared to \$4.1 million in the same period of 2023. Export tax expense increased due to higher duty rates, higher US-destined lumber shipments and a stronger USD.

Corporate and Other

Selling and administration expense was \$10.0 million in the fourth quarter of 2024 as compared to \$10.8 million in the same period last year.

Restructuring costs were \$2.1 million in the fourth quarter of 2024, consisting primarily of impairments and curtailment costs at the Alberni Pacific Division (“APD”). Restructuring costs were \$0.9 million in the fourth quarter of 2023 for retirement and other benefits related to rightsizing of certain operational functions within our business.

Other income was \$4.8 million in the fourth quarter of 2024 as compared to an expense of \$2.5 million in the same period last year, resulting primarily from higher unrealized foreign exchange gains on revaluation of our USD-denominated export tax receivable.

Finance costs were \$1.8 million in the fourth quarter of 2024 as compared to \$1.8 million in the same period last year.

Income Taxes

Income tax expense was \$1.7 million on a net income before tax of \$0.5 million in the fourth quarter of 2024 as compared to income tax recovery of \$5.3 million on loss before tax of \$19.6 million in the same period last year. The rate differential results primarily from tax basis differentials and changes in valuation allowances.

Net Loss

Net loss was \$1.2 million in the fourth quarter of 2024, as compared to a net loss of \$14.3 million for the same period last year. Results in the fourth quarter of 2024 benefitted from improving lumber demand and prices in certain markets, compared to the same period last year.

Summary of Annual 2024 Results

We reported Adjusted EBITDA of \$8.9 million for 2024, which included \$1.0 million in export tax recovery and \$2.6 million in costs at our curtailed APD facility, as compared to negative Adjusted EBITDA of \$29.9 million for the same period last year, which included \$4.3 million in export tax recovery and \$5.2 million in costs at APD. Results in 2024 benefitted from modest improvement in lumber demand and prices compared to the same period last year.

Net loss was \$34.5 million for 2024, as compared to net loss of \$70.1 million for the same period last year. Operating loss prior to restructuring and other items was \$46.4 million in 2024, as compared to loss of \$83.4 million in the same period last year.

Sales

Lumber revenue was \$817.1 million in 2024 as compared to \$781.6 million in the same period last year. The increase of 5% was due to higher average lumber prices, a stronger sales mix and a stronger USD to CAD average exchange rate. Our average realized lumber price increased by 5% to \$1,390 per thousand board feet in 2024, as compared to \$1,329 per thousand board feet in the same period last year.

Speciality lumber shipments represented 54% of total lumber shipment volumes in 2024, as compared to 51% in the same period last year. Cedar, Japan and Industrial lumber shipments all increased compared to the same period last year. Commodity lumber shipments decreased 5% due to weaker market conditions at the beginning of 2024, compared to the same period last year.

Log revenue was \$188.0 million in 2024, as compared to \$180.9 million in the same period last year. The increase of 4% was due to higher log prices and a stronger sales mix, partially offset by a decline in shipments.

By-product revenue was \$41.7 million in 2024 as compared to \$39.8 million in the same period last year. The increase of 5% was due to higher chip prices and chip volumes.

Forestry services and other revenue were \$17.1 million, as compared to \$15.2 million in the same period last year. The increase was due to growth in harvesting and road building services provided to third parties as a result of project timing.

Operations

Lumber production was 558 million board feet in 2024, as compared to 561 million board feet in the same period last year. During 2024 and 2023, we took operating curtailments at certain sawmills to match production to market demand and manage inventory. Sawmill cash conversation costs per thousand board feet were 7% higher compared to the same period last year due to mix of production.

We harvested 2.8 million cubic metres of logs from our BC coastal operations in 2024, compared to 3.0 million cubic metres harvested in the same period last year. The decline in harvest was due primarily to ongoing harvest permitting delays and lack of economic log availability.

Timberlands cash operating costs per cubic metre were flat compared to the same period last year as lower stumpage rates were offset by higher helicopter harvesting costs.

BC Coastal saw log purchases were 750,000 cubic metres in 2024, as compared to 675,000 cubic metres in the same period last year. We managed saw log purchases to balance overall log inventory to market conditions and match fibre requirements at our BC manufacturing facilities.

Freight expense was \$69.1 million in 2024 as compared to \$75.6 million in the same period last year. The decrease of 9% was primarily due to lower container and trucking rates.

We recorded \$25.5 million of CV and AD expense in 2024, as compared to \$20.2 million in the same period of 2023. Export tax expense increased due to higher average duty rates, higher lumber prices and the stronger USD.

Corporate and Other

Selling and administration expense was \$43.0 million in 2024 as compared to \$42.8 million in the same period last year.

Restructuring costs were \$5.5 million in 2024 primarily for retirement and other benefits, curtailment costs and asset impairments related to our APD facility. In 2023, the Company recognized \$7.5 million for retirement and other benefits related to our APD facility and rightsizing of various operational functions within our business.

Other income was \$6.5 million in 2024 as compared to expense of \$1.2 million in the same period last year, primarily resulting from foreign currency revaluation of a higher USD-denominated export tax receivable.

Finance costs were \$6.7 million in 2024 as compared to \$3.0 million in the same period last year. Interest expense on higher average borrowings and interest rates were partially offset by interest income on a higher average export tax receivable.

Income Taxes

Income tax recovery was \$17.6 million on a net loss before tax of \$52.1 million for an effective tax rate of 34% in 2024, as compared to a recovery of \$25.0 million on net loss before tax of \$95.1 million for an effective tax rate of 26% in the same period last year. The rate differential results primarily from tax arising on the Company's sale of a 34% ownership interest in the La-kwa sa muqw Forestry Limited Partnership ("LFLP") as discussed below under "Indigenous Relationships".

Net Loss

Net loss was \$34.5 million in 2024 as compared to \$70.1 million for the same period of last year, reflecting modest improvement in lumber demand and prices compared to the same period last year.

Accelerating the Transition to Higher Value Products

In support of the Company's key strategic priorities, including modernizing our primary manufacturing facilities, through increasing our kiln drying and planing capacity and reducing our cost structure, with a goal of accelerating the transition to higher value products, the Company continues to make progress on pre-engineering and permitting activities. These pre-engineering and permitting activities are preliminary steps taken to position the Company to be able to execute on a broader comprehensive strategy; however, any actual future investment opportunity will be subject to considering the short-term and long-term operating environment, our business and labour partnerships, and our financial condition, cash requirements and other financial metrics that we may deem relevant.

Saltair Continuous Dry Kiln

The new Saltair continuous kiln continues to perform well and since commissioning in April 2024 has operated at 99.2% of full capacity utilization and produced 42 million board feet of higher value kiln-dried lumber. The continuous dry kiln has supported Western's production of higher value products, given ongoing kiln drying capacity constraints on the BC Coast.

Two New Continuous Dry Kilns

We continue to advance pre-engineering and permitting related to two previously announced continuous dry kilns. Due to certain permitting delays, the kilns are now expected to be completed and commissioned in early 2026. As the projects are in their initial phase, costs expended to December 31, 2024 total \$1.3 million, relative to a total estimated budget of \$35 million.

Alberni Pacific Division

On January 31, 2025, the Company entered into an asset purchase agreement for the sale of APD for \$7.3 million. The sale is subject to certain customary closing conditions and is anticipated to close in the first quarter of 2025.

Sale of Fee Simple Land and Private Timberlands

On February 10, 2025, the Company completed the sale of approximately 14,500 hectares of fee simple land, biological assets and infrastructure on northern Vancouver Island, BC to a Canadian affiliate of the Eastwood Climate Smart Forestry Fund I LP for \$69.2 million.

Labour Relations

On January 17, 2025, the Company's hourly employees that are represented by the United Steelworkers Local 1-1937 ("USW") ratified a new six-year collective bargaining agreement which expires on June 14, 2030.

Incremental US Tariff

On February 1, 2025, US President Donald Trump signed an executive order imposing a tariff of 25% (the "incremental US tariff") on imported goods from Canada to the US with an originally planned implementation date of February 4, 2025. On February 3, 2025, the implementation date was delayed to March 4, 2025. The incremental US tariff is in addition to the existing combined US Softwood Lumber CV and AD rates of 14.40% which the Company is currently subject to.

We have informed customers of our intention to pass on the incremental US tariff. The potential implementation and duration of the incremental US tariff is unknown and could have a material impact on our operating earnings and cash flows. We are also working with all levels of governments across Canada to advocate for programs and policies that will best enable the forestry sector to serve global markets and manage through these uncertain times.

Indigenous Relationships

We respect the treaty and Aboriginal rights of Indigenous groups, and we are committed to open dialogue and meaningful actions in support of reconciliation. Western continues to actively invest time and resources to build and foster positive working relationships with Indigenous groups within whose traditional territories we operate, including through First Nation-led integrated resource management plan ("IRMP") initiatives across five tree farm licence ("TFL") areas, and limited partnership opportunities with First Nations with shared governance and financial interests. Some milestone achievements in building mutually beneficial relationships with First Nations during 2024 include:

On March 27, 2024, Western completed the sale of a 34% ownership interest in the LFLP to the Tlowitsis, K'ómoks, Wei Wai Kum and We Wai Kai First Nations (the "Nations"), for gross proceeds of \$35.9 million. LFLP is comprised of certain assets and liabilities of the Company's former Mid-Island Forest Operation, including TFL 64, which was created through the subdivision of Block 2 from TFL 39. The Company has a long-term fibre supply agreement in place with LFLP to support our BC manufacturing facilities. The current allowable annual cut ("AAC") of TFL 64 represents approximately 16% of Western's total current AAC.

On May 2, 2024, Western and Tseshah First Nation ("Tseshah") announced the completion of the sale of a parcel of Western's private land located in Port Alberni to Tseshah for residential development. The purchase of the 3.2 hectare property supports Tseshah's vision to build housing within the City of Port Alberni for its members and the broader community. The parcel of land was formerly used as a parking lot by Western's APD facility.

On May 14, 2024, the public review period closed for the draft TFL 37 Forest Landscape Plan and Forest Operations Plan, jointly developed by Western and ‘Namgis First Nation (“‘Namgis”) under the TFL 37 Forest Landscape Plan Pilot, a project supported by the Province of BC (“the Province”) through the Office of the Chief Forester. The draft plans are the first in British Columbia to reach this milestone and chart a new path in forest planning with a detailed view for how key values and ecosystem integrity will be managed on the landscape. ‘Namgis and Western continue to work on finalizing the pilot deliverables.

Regulatory Environment

The Province has introduced various policy initiatives and regulatory changes in recent years that impact the BC forest sector, including: fibre recovery, lumber remanufacturing, old growth forest management, forest stewardship and the exportation of logs. For additional details on these policy initiatives, regulatory changes and risks, please see “*Regulatory Risks*” under the heading “*Risks and Uncertainties*”.

Current provincial policy requires that forest management and operating plans take into account and not unreasonably infringe on Aboriginal rights and title, proven or unproven, and provide for First Nations consultation. First Nation opposition to a forest tenure or other operating authorization may delay the Province from granting the permits necessary for our timberlands operations.

For additional details on these policy requirements and regulatory aspects in relation to First Nations see “*Land Claims by Indigenous Groups*” and “*Regulatory Risks*” under the heading “*Risks and Uncertainties*”. The Company may manage risks associated with delays in the Province granting operating authorizations by fostering positive working relationships with the First Nations, as discussed above. The Company may partly mitigate the operating impacts of permit delays by increasing permitted harvest in other areas and by purchasing more logs on the open market.

Old-Growth Logging Deferral

On November 2, 2021, the Province announced its intention to work in partnership with First Nations on the proposed, temporary deferral of harvesting in 2.6 million hectares of BC forests. The proposed, temporary deferrals, if implemented, are subject to First Nations engagement. The Province has stated that final decisions on proposed, temporary deferral areas will be based on discussions between the Province and First Nations governments.

At this time, determination of potential impacts will be subject to further dialogue with the First Nations on whose territories the Company operates and their government-to-government discussions. Should the proposed measures impact Western’s business, the Company will seek support from the Province for its workers and full compensation for investments.

Western has entered into joint planning processes with multiple First Nations across the majority of our tenures with the objective to develop IRMPs. These IRMPs will address Old Growth as well as other values on the landbase where Western operates in a comprehensive way. Substantial progress was made in 2024 on several of these plans.

Timber Tenure Replacements and Reduction

Approximately 89% of Western’s and its affiliates 5,753,000 cubic metre AAC is in the form of TFLs. TFLs are granted for 25-year terms and the Province is required to offer a replacement TFL every five to ten years with a new 25-year term. This replaceable AAC comes from seven TFLs, five held by the Company (TFL 6, TFL 19, TFL 25, TFL 37 and TFL 39) and two held by its affiliates (TFL 44 and TFL 64 (created from the subdivision of Block 2 from TFL 39)). TFL 6 was replaced in March 2020, TFL 25 was replaced in May 2019, and TFL 37 was replaced in March 2017. TFL 44 was replaced in August 2019. TFL 64 was replaced in January 2025.

TFL 19 and TFL 39 are due to be replaced but have not yet been replaced by the Ministry of Forests (“MFOR”). MFOR continues to consult with potentially affected First Nations regarding the replacement of these TFLs.

Provincial legislation requires the Chief Forester to routinely review sustainable harvesting levels of individual tenures at least every 10 years and to issue a determination which may result in an increase or decrease to AAC. The AAC determination reflects tree growth, ecology, regional and local economic and social interests, water and other environmental considerations that define how forests can be managed.

TFL 44

In June, 2023, the Province set a new AAC for TFL 44, reducing the AAC from 793,600 cubic metres to 642,800 cubic metres. The new AAC was effective immediately and reflects harvest reductions associated with forest resources and socio-economic objectives of the Province, including the reallocation of previously unharvested volume to new forest licences.

The TFL 44 licence is held by Tsawak-qin Forestry Limited Partnership ("TFLP"), a limited partnership between Western and Huumiis Ventures Limited Partnership. The Company and TFLP engaged with the Province on the issues identified as part of the AAC determination. We expect the Province to update the AAC determination in 2025, thus the Company is unable to assess the potential impact of this on the Company's business at this time.

TFL 19

In 2024, the Province issued a decision on unharvested volume in TFL 19, awarding 303,500 cubic metres of unharvested volume to new forest licences. The Provincial Chief Forester has not yet made a determination on the new AAC for TFL 19; however, we expect this to occur in 2025. While we cannot predict the outcome of the determination, nor the impact any unharvested volume decision may have, the Management Plan that we submitted in 2020, recommended an 18% lower AAC (approximately 130,000 cubic metres), consistent with the timber supply forecasts from previous Management Plans. Since the draft Management Plan was submitted, a number of policy and landbase changes have come into effect, including the declaration of a new protected area, referred to as "Salmon Parks", by the Mowachaht/Muchalaht First Nation. The Company is unable to determine the potential impact of these changes on the Company's business at this time.

North Island Timber Supply Area

In June 2024, the Chief Forester determined a new AAC for the North Island Timber Supply Area ("TSA"), reducing the allowable annual log harvest from 1,248,100 cubic metres to 1,096,000 cubic metres. Western holds Forest Licence A19231 and A94737 (the "Forest Licences") in the TSA, which have a current AAC of 303,283 m³, and 5,443 m³, respectively. The Company expects the AAC of the Forest Licences to be reduced proportionally; however, the Province has not yet made a decision on the apportionment of the AAC reduction to each timber tenure in the TSA. Accordingly, the Company is unable to assess the potential impact of this AAC determination on the Company's business at this time.

Other BC Government Forest Policies and Initiatives

In September 2024, the BC Ministry of Water, Land and Resource Stewardship advised that it is developing a Wildlife Habitat Features ("WHF") Order for the West Coast Region pursuant to the *Forest and Range Practices Act*. The West Coast Region includes a majority of the forest tenures within which the Company operates. The intent of a WHF Order is to identify species which require special management and thus are protected from being damaged or rendered ineffective. As the Ministry of Water, Land and Resource Stewardship is in the early stages of engaging on and developing a WHF Order for the West Coast Region, the potential impact of any order made on the Company's business is not ascertainable at this time.

Financial Position and Liquidity ⁽¹⁾

(millions of Canadian dollars except where otherwise noted)

Selected Cash Flow Items	Q4 2024	Q4 2023	Q3 2024	Annual 2024	Annual 2023
Operating activities					
Net loss	\$ (1.2)	\$ (14.3)	\$ (19.6)	\$ (34.5)	\$ (70.1)
Amortization	14.3	13.3	13.6	54.7	53.7
Impairment of assets held for sale	1.5	-	1.3	2.8	-
Loss on disposal of property, plant and equipment	0.7	0.5	0.1	0.6	0.2
Income tax recovery	1.7	(5.3)	(8.6)	(17.6)	(25.0)
Income tax receipts	-	0.4	22.6	22.5	15.4
Share-based compensation, including mark-to-market adjustment	(0.4)	(0.6)	0.8	0.4	(1.2)
Export tax receivable	-	-	(1.0)	(1.0)	(4.3)
Finance costs	1.8	1.8	1.2	6.7	3.0
Foreign exchange and other	(5.2)	-	(0.9)	(10.5)	(1.8)
	13.2	(4.2)	9.5	24.1	(30.1)
Change in non-cash working capital	11.2	3.4	1.4	(4.0)	(3.7)
Cash provided by (used in) operating activities	24.4	(0.8)	10.9	20.1	(33.8)
Investing activities					
Additions to property, plant and equipment	(8.2)	(14.9)	(7.3)	(25.1)	(34.1)
Additions to capital logging roads	(2.2)	(2.3)	(2.2)	(8.3)	(10.3)
Proceeds on disposal of property, plant and equipment	-	-	0.1	1.0	2.2
Insurance proceeds	-	-	-	-	4.7
Advances and loans	0.1	0.1	0.1	0.3	(1.1)
Deposits	-	-	(0.2)	-	-
Proceeds from disposition of minority interest in subsidiary	-	-	-	35.1	-
Cash used in investing activities	(10.3)	(17.1)	(9.5)	3.0	(38.6)
Financing activities					
Net drawings on credit facility	(4.5)	21.8	2.6	2.0	84.0
Bank indebtedness	(1.4)	0.4	0.9	(0.9)	0.9
Equipment loan	-	-	-	-	0.1
Interest payments	(2.4)	(2.6)	(1.8)	(8.6)	(4.7)
Debt refinancing costs	(0.5)	-	-	(0.5)	-
Dividends	-	-	-	-	(11.9)
Lease payments	(2.4)	(2.4)	(2.4)	(9.5)	(9.5)
Cash provided by (used in) financing activities	(11.2)	17.2	(0.7)	(17.5)	58.9
Increase (decrease) in cash	\$ 2.9	\$ (0.7)	\$ 0.7	\$ 5.6	\$ (13.5)
Summary of Financial Position					
Cash and cash equivalents	\$ 7.9	\$ 2.3	\$ 5.0		
Current assets	334.1	334.9	318.2		
Current liabilities	127.0	121.0	104.8		
Bank indebtedness	-	0.9	1.4		
Long-term debt	85.5	83.8	90.0		
Net debt ⁽²⁾	77.6	82.4	86.4		
Equity, excluding non-controlling interest	558.2	565.0	555.4		
Total liquidity ⁽³⁾⁽⁶⁾	144.6	147.8	137.3		
Financial ratios					
Current assets to current liabilities ⁽⁴⁾	2.63	2.77	3.04		
Net debt to capitalization ⁽⁵⁾⁽⁶⁾	12%	13%	13%		

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

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

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

(4) Current assets to current liabilities is a supplementary measure and defined as current assets divided by current liabilities.

(5) Capitalization comprises net debt and shareholders' equity.

(6) Total liquidity and net debt to capitalization are non-GAAP financial measures. Refer to the "Non-GAAP Financial Measures" section of this document for more information on each non-GAAP financial measure.

Cash provided by operating activities was \$20.1 million in 2024, as compared to cash used of \$33.8 million in the same period last year due to modest improvement in lumber demand and prices compared to the same period last year. In 2024, we received an income tax refund of \$22.5 million, as compared to \$15.4 million in the comparative period.

Cash provided by investing activities was \$3.0 million in 2024, as compared to cash used of \$38.6 million in the same period last year. In 2024, the Company received \$35.1 million from the sale of a 34% ownership interest in the LFLP and reduced its capital spending to maintain balance sheet strength. The comparative period included receipt of \$4.7 million in life insurance proceeds, arising from a predecessor company arrangement.

Cash used in financing activities was \$17.5 million in 2024 as compared to cash provided of \$58.9 million in the same period last year which included higher credit facility drawings and dividend payments.

Liquidity and Capital Resources

Total liquidity was \$144.6 million at December 31, 2024, as compared to \$147.8 million at the end of the prior year. As at December 31, 2024, liquidity is comprised of cash and cash equivalents of \$7.9 million, and unused availability under the credit facility of \$136.7 million.

On July 26, 2024, the Company's syndicated credit facility (the "Credit Facility") was amended, with the maturity date extended to July 21, 2026 from July 21, 2025. The Credit Facility provides for a maximum borrowing amount of \$250 million, with advances in excess of \$215 million subject to a leverage metric. The Credit Facility is subject to certain financial covenants, including a maximum debt to total capitalization ratio, and in limited circumstances a reduction to the maximum facility size related to certain material dispositions. A copy of the Credit Facility agreement is filed under the Company's profile on SEDAR+ at www.sedarplus.ca.

Based on our current forecasts, we expect sufficient liquidity will be available to meet any commitments as well as our other obligations through 2025. The Company was in compliance with its financial covenants as at December 31, 2024.

Summary of Contractual Obligations

The following table summarizes our contractual and legal obligations at December 31, 2024, and our payments due for each of the next five years and thereafter, including estimated interest payments:

<i>(millions of Canadian dollars)</i>	Total	2025	2026	2027	2028	2029	Thereafter
Accounts payable and accrued liabilities ⁽¹⁾	109.0	109.0	-	-	-	-	-
Purchase commitments	23.4	23.4	-	-	-	-	-
Long-term debt	95.3	6.0	89.3	-	-	-	-
Lease liabilities ⁽²⁾	21.5	7.7	5.8	4.2	1.3	0.7	1.8
Reforestation obligation	24.1	7.4	4.2	2.7	1.8	1.4	6.6
Defined benefit pension plan funding payments	4.9	0.7	0.7	0.7	0.7	0.7	1.4
Other ⁽¹⁾	8.6	1.7	1.6	1.2	1.0	0.1	3.0
	\$ 286.8	\$ 155.9	\$ 101.6	\$ 8.8	\$ 4.8	\$ 2.9	\$ 12.8

(1) Accounts payable and accrued liabilities presented net of current portion of Other

(2) Includes liabilities directly associated with assets held for sale

Dividend and Capital Allocation

Quarterly Dividend

The Company suspended its quarterly dividend payments in the fourth quarter of 2023. Thus, no dividends were paid during 2024, as compared to \$11.9 million paid in 2023.

Normal Course Issuer Bid ("NCIB")

No shares were purchased under our NCIB in 2024 or in 2023. The Company's NCIB expired on August 10, 2024 and was not renewed.

Capital Expenditures

We currently anticipate 2025 capital expenditure spending of between \$60 and \$65 million, which includes approximately \$30 million of planned spending on the two previously announced continuous dry kilns. The Company will continue to review capital expenditure spending with a near-term priority of maintaining a strong balance sheet and financial flexibility.

Market Outlook

Demand and pricing for our North American Cedar product lines are expected to improve in the first quarter of 2025, with most of our business already booked with major distributors. The overall North American cedar market is expected to experience shortages in most products in the second quarter of 2025 which is expected to lead to further price increases.

In Japan, consumption is expected to remain moderate as housing starts and overall construction activities are low. Pricing continues to remain more challenged due to a weaker Japanese yen to USD exchange rate.

Demand for our Industrial lumber products have been strong and is expected to continue to gain momentum in the first quarter of 2025, with decreased supply across all species. For commodity lumber, North American demand and pricing in the first quarter of 2025 is anticipated to benefit from industry-wide curtailments experienced late in 2024. In China, despite a continued slowdown in housing and real estate, softwood lumber markets are performing above expectations. Inventories are low and prices have risen as a result. Going forward, volatility is expected as the incremental US tariff threat may impact exports to the US and result in lower demand for lumber.

Softwood Lumber Dispute

The US application of duties continues a long-standing pattern of US protectionist action against Canadian lumber producers. For a comprehensive history of the softwood lumber trade dispute and related North American Free Trade Agreement (“NAFTA”) challenge proceedings, please see *“Risks and Uncertainties – Softwood Lumber Dispute”*.

During 2024, Western expensed \$25.5 million of export duties at a combined duty rate of 8.05% on its lumber shipments into the US until August 18, 2024, and at 14.40% thereafter as compared to an expense of \$20.2 million of export duties at a combined rate 8.59% until July 31, 2023, and at 8.05% thereafter for the same period last year.

On August 12, 2024, the Department of Commerce (“DoC”) released its final determination for CV and AD rates from its fifth administrative review (“AR”) for shipments in 2022, amended on September 24, 2024 for ministerial calculation errors in the AD rate. The Company recognized an additional export tax recovery of USD\$0.8 million (CAD\$1.0 million) and related long-term interest-bearing duty receivable in 2024. Effective August 19, 2024, cash deposits will continue at the revised combined duty rate of 14.40% until publication of final rates of the sixth AR in the federal register.

As at December 31, 2024, Western had \$264 million (USD\$184 million) of cash on deposit with the US Department of Treasury (2023: \$219 million; USD\$165 million) in respect of these softwood lumber duties, of which \$68.1 million (USD \$47.3 million) is recognized in the Company’s consolidated statement of financial position arising from final rate determinations for Canadian shipments made to the US in 2017 through 2022.

Including wholesale lumber shipments, our sales from Canadian operations to the US market represented approximately 25% of our total lumber shipments during 2024.

For a summary of cash deposit and final CV and AD rates applicable to lumber shipment dates, please see *“Risks and Uncertainties – Softwood Lumber Dispute”*.

The final amount and effective date of CV and AD duties that may be assessed on Canadian softwood lumber exports to the US cannot be determined at this time and will depend on decisions yet to be made by any reviewing courts or panels to which the DoC and ITC determinations may be appealed.

Summary of Selected Annual Information ⁽¹⁾

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

	2024	2023	2022
Total revenue	\$ 1,063.9	\$ 1,017.5	\$ 1,444.0
Operating income (loss) prior to restructuring and other items	(46.4)	(83.4)	86.7
Net income (loss)	(34.5)	(70.1)	61.8
Adjusted EBITDA ⁽²⁾	\$ 8.9	\$ (29.9)	\$ 136.9
Adjusted EBITDA margin ⁽²⁾	1%	(3%)	9%
Return on Capital Employed ⁽²⁾	1.3%	(4.3%)	20.0%
Diluted earnings (loss), dollars per share	\$ (0.10)	\$ (0.22)	\$ 0.19
Cash dividends, dollars per share	-	0.0375	0.0475
Total assets	\$ 915.5	\$ 915.4	\$ 932.8
Net debt (cash) ⁽³⁾	77.6	82.4	(15.8)

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

(2) Adjusted EBITDA, Adjusted EBITDA margin, and ROCE are non-GAAP financial measures. Refer to the *Non-GAAP Financial Measures* section of this document for more information on each non-GAAP financial measure.

(3) Net debt (cash), a supplemental measure, is defined as long-term debt and bank indebtedness less cash and cash equivalents.

Non-GAAP Financial Measures

Reference is made in this MD&A to the following non-GAAP measures: Adjusted EBITDA, Adjusted EBITDA margin, net debt to capitalization, total liquidity and ROCE, which 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:

(millions of Canadian dollars except where otherwise noted)

Adjusted EBITDA	Q4 2024	Q4 2023	Q3 2024	Annual 2024	Annual 2023	Annual 2022
Net income (loss)	\$ (1.2)	\$ (14.3)	\$ (19.6)	\$ (34.5)	\$ (70.1)	\$ 61.8
Add:						
Amortization	14.3	13.3	13.6	54.7	53.7	50.2
Changes in fair value of biological assets	0.6	-	0.1	0.7	(0.2)	0.1
Operating restructuring items	2.1	0.9	1.9	5.5	7.5	4.5
Other expense (income)	(4.8)	2.5	0.7	(6.5)	1.2	(2.1)
Finance costs (income)	1.8	1.8	1.2	6.7	3.0	(0.1)
Income tax expense (recovery)	1.7	(5.3)	(8.6)	(17.6)	(25.0)	22.6
Adjusted EBITDA	\$ 14.4	\$ (1.2)	\$ (10.7)	\$ 8.9	\$ (29.9)	\$ 136.9
Adjusted EBITDA margin						
Total revenue	\$ 273.2	\$ 246.6	\$ 241.7	\$1,063.9	\$1,017.5	\$1,444.0
Adjusted EBITDA	14.4	(1.2)	(10.7)	8.9	(29.9)	136.9
Adjusted EBITDA margin	5%	(0%)	(4%)	1%	(3%)	9%
Net debt to capitalization				Dec. 31, 2024	Dec. 31, 2023	Dec. 31, 2022
Net debt						
Total debt				\$ 85.5	\$ 83.8	\$ -
Bank indebtedness				-	0.9	-
Cash and cash equivalents				(7.9)	(2.3)	(15.8)
				<u>\$ 77.6</u>	<u>\$ 82.4</u>	<u>\$ (15.8)</u>
Capitalization						
Net debt (cash)				\$ 77.6	\$ 82.4	\$ (15.8)
Total equity attributable to equity shareholders of the Company				558.2	565.0	647.2
				<u>\$ 635.8</u>	<u>\$ 647.4</u>	<u>\$ 631.4</u>
Net debt to capitalization				12%	13%	-

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

(millions of Canadian dollars except where otherwise noted)

Total liquidity	Dec. 31, 2024	Dec. 31, 2023	Dec. 31, 2022
Cash and cash equivalents	\$ 7.9	\$ 2.3	\$ 15.8
Available credit facility	250.0	250.0	250.0
Bank indebtedness	-	(0.9)	-
Credit facility drawings	(86.0)	(84.0)	-
Outstanding letters of credit	(27.3)	(19.6)	(16.0)
	\$ 144.6	\$ 147.8	\$ 249.8
Return on capital employed	2024	2023	2022
Trade and other receivables	\$ 60.1	\$ 50.9	\$ 60.5
Inventory	217.1	213.5	224.8
Prepaid expenses and other assets	35.0	33.9	21.3
Property, plant and equipment	349.6	354.4	364.7
Timber licences	88.2	92.3	96.3
Biological assets	48.6	49.3	49.1
Other assets	87.4	77.4	75.7
Goodwill	7.5	6.9	7.0
	893.5	878.6	899.4
Less:			
Duty receivable and related interest	82.7	70.8	63.7
Accounts payable and accrued liabilities	110.7	102.8	108.5
Current portion of lease liabilities	6.7	6.9	6.8
Current portion of reforestation obligation	7.3	7.9	8.3
Current portion of deferred revenue	2.0	2.0	2.0
	209.4	190.4	189.3
Net capital employed as at December 31	684.1	688.2	710.1
Net capital employed as at January 1	688.2	710.1	658.2
Average capital employed	\$ 686.2	\$ 699.2	\$ 684.2
Adjusted EBITDA divided by average capital employed	1.3%	(4.3%)	20.0%

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

Critical Accounting Estimates

Reforestation Obligation

Under BC law, we are responsible for reforesting areas that we harvest. These obligations are referred to as reforestation obligations. We accrue our reforestation obligations based on estimates of future costs at the time the timber is harvested. The estimate of future reforestation costs is based on a detailed analysis for all areas that have been logged and includes estimates for the extent of reforestation versus natural regeneration, the cost of planting including the cost of seedlings, the extent and cost of site preparation, brushing, weeding, thinning and replanting and the cost of conducting surveys. Our registered professional foresters conduct the analysis that is used to estimate these costs. However, these costs are difficult to estimate and can be affected by weather patterns, climate change, forest fires and wildlife issues that could impact the actual future costs incurred and thus result in material adjustments.

Costing and Valuation of Inventory

We cost our inventory using complex models that are required due to our integrated supply chain and the variability in the species and grades of log, lumber and engineered wood products inventory. We cost our inventory at the average cost of production by facility, species and product for lumber and by species and end sort for each operation for logs. We value our log and lumber inventories at the lower of cost and net realizable value. We estimate net realizable value by reviewing current market prices for the specific inventory items based on current sales orders and recent sales prices. If the net realizable value is less than the cost amount, we will record a provision. The determination of net realizable value at a point in time is generally both objective and verifiable. However, changes in product prices can occur suddenly, which could result in a material provision in inventories in future periods.

Pension and Other Post Retirement Benefits

Western has various defined benefit and defined contribution plans, a group Registered Retirement Savings Plan (“RRSP”), and Supplemental Executive Retirement Plan that provide retirement benefits to its eligible salaried employees. A group RRSP is provided to certain hourly employees not covered by forest industry union plans. The Company also provides other post-retirement benefits and pension bridging benefits to eligible retired employees. Our defined benefit plans were closed to new entrants effective June 30, 2006. No further benefits accrue under these plans for years of service after December 31, 2010, and no further benefits accrue under these plans for compensation increases effective December 31, 2016.

We retain independent actuarial consultants to perform actuarial valuations of plan obligations and asset values, and advise on the amounts to be recorded in the financial statements. Actuarial valuations include certain assumptions that directly affect the fair value of the assets and obligations and expenses recorded in the financial statements. These assumptions include the discount rate used to determine the net present value of obligations, the return on plan assets used to estimate the increase in the plan assets available to fund obligations, and medical and health care costs used to estimate obligations. Actual experience can vary materially from the estimates and impact the cost of our pension and post-retirement medical and health plans and future cash flow requirements.

Environmental Provisions

We disclose environmental obligations when known and accrue costs associated with the obligations when they are known and can be reasonably estimated. The Company owns a number of sites that have been in existence for significant periods of time and, as a result, we may have unknown environmental obligations. Until the sites are decommissioned, and the plant and equipment are removed, a complete environmental review cannot be undertaken.

Contingencies

Provisions for liabilities relating to legal actions and claims require judgements using management’s best estimates regarding projected outcomes and the range of loss, based on such factors as historical experience and recommendations of legal counsel. Actual results may vary from estimates and the differences are recorded when known.

Valuation of Biological Assets

The Company values its biological assets at fair value less costs to sell. Valuation analysis includes recent comparatives of standing timber sales, direct and indirect costs of sustainable forest management, net present value of future cash flows for standing timber and log pricing assumptions. Significant assumptions are used in the preparation of the valuation and actual results may vary materially from estimates. The Company’s Registered Professional Foresters review the significant assumptions including standing timber inventories and annual harvest levels.

Impairments

Assets that are subject to amortization are tested for impairment whenever events or changes in circumstances indicate that the carrying amount may not be recoverable. Goodwill is evaluated annually regardless of whether there is a triggering event. Impairment losses are recognized in net income for the period for the amount by which the asset’s carrying amount exceeds its recoverable amount. An impairment analysis requires the use of significant assumptions, including management and independent third-party input.

Income Tax Assets and Liabilities

Estimations in the recognition of tax assets or liabilities require assessments to be made based on the potential tax treatment of certain items that will only be resolved once finally agreed with the relevant tax authorities. Significant judgment is required as income tax laws and regulations can be complex and are potentially subject to different interpretation between the Company and the respective tax authority. Net income in subsequent periods may be impacted by the amount that estimates differ from the final tax return.

Deferred Income Taxes

Deferred tax assets and liabilities comprise the tax effect of temporary differences between the carrying amount and tax basis of assets and liabilities, as well as the tax effect of unused tax losses. Assumptions underlying the composition of deferred tax assets and liabilities include estimates of future results of operations

and the timing of reversal of temporary differences as well as the substantively enacted tax rates and laws at the time of the expected reversal. The composition of deferred tax assets and liabilities is reasonably likely to change from period to period due to the number of variables associated with the differing tax laws and regulations across the jurisdictions in which the Company operates. As a result, the precision and reliability of the resulting estimates are subject to uncertainties and may change as additional information becomes known. Uncertainties surrounding these assumptions and changes in tax rates or tax policy could have a material effect on expected results.

Accounting Policies and Standards

Several new and amended IFRS standards are not yet effective for the year ended December 31, 2024 and have not been applied in preparing these financial statements. We are currently evaluating the impact of IFRS 18, *Presentation and Disclosure in Financial Statements*, which will replace IAS 1, *Presentation of Financial Statements*, for the year ending December 31, 2027. No other standards are currently considered by the Company to be significant or likely to have a material impact on future financial statements.

Financial and Other Instruments

The Company utilizes derivative financial instruments in the normal course of its operations as a means to manage its foreign exchange risk and may purchase foreign exchange forward contracts or similar instruments to hedge anticipated USD and JPY sales. The Company does not utilize derivative financial instruments for trading or speculative purposes. Accordingly, the instrument is adjusted to fair value and marked to market each accounting period, with changes recorded in net income.

During 2024, the Company entered into foreign exchange forward contracts to sell USD and JPY in order to partially mitigate its foreign currency risk. At December 31, 2024, the Company had forward contracts in place to sell an aggregate USD \$12.0 million (2023: USD \$13.0 million). A related asset of negligible amount (2023: negligible amount) was recognized in trade and other receivables at December 31, 2024. The Company recognized \$1.9 million in losses on contracts that matured during the year (2023: \$1.2 million gain), which is included in revenue in the consolidated statement of comprehensive loss.

Off-Balance Sheet Arrangements

The Company has off-balance sheet arrangements which include letters of credit and surety performance and payment bonds, primarily for timber purchases and CV and AD duty deposits. At December 31, 2024, surety performance and payment bonds aggregated \$48.2 million (December 31, 2023: \$49.7 million), of which \$24.5 million (December 31, 2023: \$18.6 million) are secured by letters of credit. Off-balance sheet arrangements have not had, and are not reasonably likely to have, any material impact on the Company's current or future financial condition, results of operations or cash flows.

Related Party Transactions

Key personnel of the Company include the executive management team and members of the Board of Directors. The compensation paid or payable to key personnel is shown below:

	<u>Years ended December 31,</u>	
	<u>2024</u>	<u>2023</u>
Salaries, directors' fees and short-term benefits	\$ 6.3	\$ 6.2
Post-employment benefits	0.8	0.9
Share-based compensation, including mark-to-market adjustment	0.3	(0.4)
	<u>\$ 7.4</u>	<u>\$ 6.7</u>

Reduced net loss and a lesser decrease in our share price in 2024 resulted in the increase in related party share-based compensation expense compared to 2023.

Risks and Uncertainties

The following risks and uncertainties may have a material adverse effect on our operations or our financial condition:

Regulatory Risks

Our forestry and sawmill operations are subject to extensive federal, provincial, state, municipal and other local laws and regulations, including those governing forestry, exports, taxes, labour standards, occupational health, safety, waste disposal, building structures/systems, environmental protection and remediation, protection of endangered and protected species and land use and expropriation. Under certain laws and regulations, we are also required to obtain permits, licences and other authorizations to conduct our operations, which permits, licences and authorizations may impose additional conditions that must be satisfied. Although we budget for expenditures to maintain compliance with such laws, permits and authorizations, there can be no assurance that these laws and regulations or government policy will not change in the future in a manner that could have an adverse effect on our financial condition or results of operations or the manner in which we operate. Nor can there be any assurance that administrative interpretation of existing laws and regulation will not change or more stringent enforcement of existing laws will not occur, in response to changes in the political or social environment in which we operate or otherwise, in a manner that could have an adverse effect on our financial condition or results of operations or the manner in which we operate.

Log exports from our timber operations are subject to federal and provincial regulations. An export permit must be obtained from the Canadian Federal Government to export any logs harvested in BC with the requirement that the logs must be surplus to the supply required for domestic manufacturers.

The Company did not export any logs in 2024 or 2023 and does not expect to export logs in 2025.

There have been significant legislative reforms in the BC Forest Industry over the last 40 years. There can be no assurance that the Province will not implement further policy changes, or that such changes will not have a material adverse effect on our operations or our financial position.

In 2019, BC became the first province in Canada to adopt the principles of the United Nations Declaration on the Rights of Indigenous Peoples (“UNDRIP”) through the bringing into force of Bill 41, *Declaration on the Rights of Indigenous Peoples Act*. The Act requires the Province to align all laws with UNDRIP, to develop an action plan to achieve this, and regularly report to the legislature to monitor progress. The Canadian federal government has also pledged to implement UNDRIP and the Calls to Action of the Truth and Reconciliation Commission. Significant expectation has been raised among Aboriginal groups in BC and across the country as to the impact that this Act and the federal government’s commitments may have on efforts to achieve true reconciliation with Aboriginal groups. At this time, the Company is unable to predict the outcome of the Act and the implementation of these commitments on Western’s ongoing operations or assets.

Notable legislative changes and policy initiatives undertaken in recent years which may have a material adverse effect on the Company are as follows:

- In January 2020, the Province announced changes to the Manufactured Forest Products Regulation (“MFPR”). The amendments to the MFPR require wood products made from Western Red Cedar (“WRC”) or cypress (yellow cedar) on the BC Coast and exported within 3,000 miles of BC to be fully manufactured to be eligible for export or be subject to export tax. Fully manufactured is defined as timber that will not be kiln-dried, planed or re-sawn at a facility outside of BC.
- On November 2, 2021, the Province announced proposed incremental, temporary harvest deferrals as recommended through its Old Growth Technical Advisory Panel, subject to engagement with and agreement from First Nations. Across BC, an incremental 2.6 million hectares classified as old growth forest were identified for deferrals. The thirty-day response period initially provided to First Nations was extended.
- On November 16, 2021, the Province introduced Bill 28, *Forest Amendment Act, 2021*, which is considered enabling legislation for the redistribution of harvest rights and, subject to further regulation, includes changes to how tenure holders may be compensated under the Forest Act for tenures. Included in the amendments arising from this Bill were requirements for area-based tenure holders to maintain and provide forest inventories. In June 2023, the Province passed regulations pertaining to compensation for lost harvesting rights as a result of such redistribution.

- On November 25, 2021, the Province's Bill 23, *Forests Statutes Amendment Act, 2021*, amendment to the *Forest and Range Practices Act* received Royal Assent bringing into legislation forest planning and related changes including changing the model for forest stewardship through replacing Forest Stewardship Plans approved by Forest Districts with Forest Landscape Plans which are to be established by the Provincial Chief Forester.
- On January 25, 2022, the Province announced that it was developing BC's first Watershed Security Strategy and Fund, with details outlined in its published Discussion Paper: Watershed Security Strategy and Fund, including a commitment to develop and implement it with Indigenous peoples and in collaboration with local and federal governments.
- In February 2023, the Province announced eight new regional FLP tables throughout BC with the participation of approximately 50 First Nations. The Province's stated objective of these FLP tables is to provide greater clarity around the long-term, sustainable harvesting activities in the areas identified.
- In November 2023, the Province's Bill 41, *Forests Statutes Amendment Act, 2024* received Royal Assent amending certainty forestry legislation to, among other things, modify the existing mechanism for applying for and obtaining cutting permits and road permits and amending the provisions governing the Minister of Forest's obligation to offer replacements for replaceable forest tenures.
- On November 3, 2023, the Government of Canada, the Province and the First Nations Leadership Council announced the signing of the Nature Agreement, which extends through March 2030, and is intended to further conserve and protect land and water, species and biodiversity in BC. The Nature Agreement includes up to \$1 billion in government funding in support of the Government of Canada's goal to protect 30% of Canada's terrestrial and aquatic ecosystems by 2030.
- In November 2023, the Province released a draft "BC Biodiversity and Ecosystem Health Framework". The document outlines a high-level description of proposed outcomes, principles and coordination between various processes and initiatives. It proposes the establishment of an Office of Biodiversity and Ecosystem Health to lead development of objectives and standards.
- In September 2024, the BC Ministry of Water, Land and Resource Stewardship advised that it is developing a WHF Order for the West Coast Region pursuant to the *Forest and Range Practices Act*. The majority of the forest tenures within which the Company operates are included in the West Coast Region. The intent of a WHF Order is to identify species which require special management and thus are protected from being damaged or rendered ineffective.

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

Availability of Fibre and Dependency on Fibre Obtained from Government Timber Tenures

Substantially all of the timberlands in BC in which we operate are owned by the Province and administered by MFOR. The *Forest Act* (British Columbia) (the "Forest Act") empowers the MFOR to grant timber tenures, including TFLs, Forest Licences ("FLs") and Timber Licences ("TLs"), to producers, although no new TLs can be issued and the availability of extensions to expiring TLs is not assured. The Provincial Chief Forester must conduct a review of the AAC for each Timber Supply Area and each TFL in the Province on a periodic basis, at least once every ten years. This review is then used to determine the AAC for licences issued by the Province under the Forest Act. Many factors affect the AAC including timber inventory, the amount of operable forest land, growth estimates of young forests, regulation changes and environmental and social changes. Such assessments have in the past resulted and may in the future result in reductions or increases to the AAC attributable to licences held by BC forest companies (without compensation), including the licences that we hold.

TFLs and FLs held by the Company have cut control periods, which are generally five years. Under the Forest Act, if the volume of timber harvested during a cut control period is less than the total AAC for the TFL or FL in that period, the licence holder loses the right to harvest the unharvested volume in any subsequent period. Furthermore, for TFLs such unharvested volume can be allocated to third parties. The Company may not harvest its full AAC during a cut control period due to, among other things, market conditions, labour disputes, labour and contractor shortages, permitting delays, severe weather conditions, and changes in government policy. We are unable to predict the potential impact of an uncut decision.

In addition, our AAC can be temporarily reduced (without compensation for the first four years) in areas where logging has been suspended under Part 13 of the Forest Act pending government decisions regarding the public interest in designated areas.

Land use planning, including critical habitat designations, stand age restrictions, as well as new harvesting regulations, can constrain access to timber and new parks can permanently remove land from the timber harvesting land base. There can be no assurance that the amounts of such future reductions on our licences, if any, will not be material or the amounts of compensation, if any, for such reductions will be fair and adequate.

Our fibre supply requirements in the US are currently met from a broad range of sources, including Federal and State lands, from private landowners and open market purchases, which are subject to log availability and based on market prices.

Changes in the log markets in which we operate, including the price, quality or availability of log supply, may increase the costs of log purchases which could adversely affect our results. In addition, weather-related issues can restrict timely access to log supply.

Land Claims by Indigenous Groups

Indigenous groups have made claims of rights and title to substantial portions of land in BC, including areas where our timber tenures and operations are situated. These claims have created uncertainty as to the status of competing property rights and of legislation and Crown decisions that may adversely affect such rights and title. The Supreme Court of Canada (the “Court”) has held that Aboriginal groups may have a spectrum of constitutionally recognized and affirmed Aboriginal rights, including title, in lands that have been traditionally used or occupied by their ancestors; however, such rights are not absolute, and may be infringed by government in furtherance of a valid legislative objective, including forestry, subject to meeting a justification test. The effect on any particular area will not be determinable until the nature of historical use, occupancy and rights in any particular piece of property have been clarified. The Court has also held that even before claims of rights and title are proven, where the Crown has knowledge, real or constructive, of the potential existence of an Aboriginal right or title and contemplates conduct that might adversely impact it, the Crown has a legal duty to consult with Indigenous groups, which may include a duty to provide accommodation. During the period before asserted claims are proven, the Crown is required to consult in good faith with the intention of substantially addressing concerns raised by the Indigenous groups.

From time to time, Indigenous groups seek compensation from governments (and in some instances, from forest tenure holders) with respect to their claims, and the effect of these claims on tenure rights, including our timber tenures, cannot be estimated at this time. The Federal and Provincial governments continue to negotiate treaty and/or other reconciliation agreements with Indigenous groups in BC in order to resolve these claims. This section provides an overview of recent developments in Indigenous land claims and settlements that have or may affect the Company.

In the June 2014 *Tsilhqot’in* decision, the Court recognized Tsilhqot’in title to a portion of the area in dispute, including rights to decide how the land will be used, occupancy and economic benefits of the land. The Court held that while the Province had the constitutional authority to regulate forest activity on Aboriginal title lands, it had not adequately consulted with the Tsilhqot’in. While the decision does not directly impact Western’s business as we do not have tenure in this area, we do operate on Crown tenures elsewhere that are subject to claims of Aboriginal title. The potential impact on Western’s tenure holdings is not ascertainable at this time.

The following litigation is currently outstanding in relation to forest tenures held by the Company:

- In January 2017, the Nuchatlaht First Nation (“Nuchatlaht”) filed a Notice of Civil Claim with the British Columbia Supreme Court (“BCSC”) against Canada, the Province and the Company, seeking a declaration of Aboriginal title to a claim area that encompasses approximately 201 square kilometres of the northern half of Nootka Island (the “Nuchatlaht Claim Area”) and a declaration that the Forest Act and Park Act are no longer applicable to the Nuchatlaht Claim Area. The Nuchatlaht Claim Area encompasses a portion of the harvesting area of the Company’s Forest Licence A19231 and certain timber licences also held by the Company. In April 2023, shortly after the trial began, Nuchatlaht filed a Notice of Discontinuance, ending the proceedings against Western. On August 7, 2024, the BCSC made a formal declaration of Aboriginal title over specific sites encompassing approximately 11.33 square kilometres within the Nuchatlaht Claim Area, while also declaring that the effect of such declaration be suspended for 24 months to allow for the continued application of the relevant forest legislation. Nuchatlaht has filed for an appeal of the BCSC decision with the British Columbia Court of Appeal seeking a declaration of Aboriginal title with respect to the entire Nuchatlaht Claim Area. Given

the foregoing, the potential impact of the Nuchatlaht decision on Western's tenure holdings is not ascertainable at this time.

- In May 2018, the Dzawada'enuxw First Nation filed a Notice of Civil Claim against, among others, Canada, the Province, and the Company. The Dzawada'enuxw First Nation, located at Kingcome Inlet on the mainland coast, is seeking a declaration of Aboriginal title over an area that includes a portion of two of Western timber licenses and TFL 39 (Block 3) and a declaration that the *Forest Act* and *Park Act* are no longer applicable to the claim area. This matter has not yet proceeded to trial.
- On December 12, 2024, the Mowachaht/Muchalaht First Nation ("MMFN") filed an Amended Notice of Civil Claim with the BCSC against the Province, seeking a declaration of Aboriginal title to a claim area encompassing approximately 430,000 hectares of Nootka Sound (the "MMFN Claim Area") and a declaration that the *Forest Act* and *Land Act* (British Columbia) are no longer applicable to the MMFN Claim Area. The MMFN Claim Area encompasses a portion of the harvesting area of the Company's Forest Licence A19231, TFL 37 and TFL 19. The potential impact of the MMFN claim on Western's tenure holdings is not ascertainable at this time.

Government-to-government negotiation processes involving several First Nations, with territories that Western's operating areas overlap, are well advanced and may lead to agreements impacting the Company in 2025. It is expected that through these processes, the Province may seek to remove areas from the Company's forest tenures or amend existing permitting processes to incorporate shared decision making contemplated by the *Declaration on the Rights of Indigenous Peoples Act* ("DRIPA").

The Company is currently unable to predict the outcome of these legal proceedings and negotiations on Western's ongoing operations, including operational delays, access to harvesting rights or impact on the Company's assets. An unfavourable result in any of the consultation or litigation in which the Company is a party or which involves assets of the Company could have a material adverse effect on our financial condition or results of operations.

In addition to the implementation of DRIPA (see "*Risks and Uncertainties – Regulatory Risks*"), current provincial policy requires that forest management and operating plans take into account and not unreasonably infringe on Aboriginal rights and title, claimed or determined, and provides for consultation with Indigenous groups. This policy is reflected in the terms of our timber tenures, which provide that the Province may vary or refuse to issue cutting permits in respect of a timber tenure if it is determined by a court that the forestry operation would unjustifiably infringe an Aboriginal right, including Aboriginal title. Indigenous groups have, at times, sought to restrict the Province from granting or replacing forest tenures and other operating authorizations or from approving forest management plans on Crown lands without full consultation and accommodation or their consent if these decisions could affect lands claimed by them. There can be no assurance that denial of required approvals for, or changes to the terms of our timber tenures, other operating authorizations or forest management plans as a consequence of such consultation or action will not have an adverse effect on our financial condition or results of operations.

Stumpage Fees

Stumpage is the fee that the Province charges forest companies for timber harvested from Crown land in BC. Approximately 95% of the timber we harvest is from Crown land. Stumpage is set using the Coast version of the Market Pricing System ("MPS"). MPS uses the winning bids and stand characteristics of timber sold through British Columbia Timber Sales ("BCTS") auctions to develop regression equations that predict the market, or auction value of Crown timber harvested under long-term tenures. The auction value is then adjusted to reflect costs that tenure holders incur that auction bidders do not incur as BCTS covers these costs. These costs typically include road development, road maintenance, forest planning and administration, and silviculture. There are also other harvesting costs not represented in the auction dataset that are also deducted from the auction value including Tree Crown Modification, Barging, Ecosystem-Based Management, and Inland Water Transportation. The Coastal MPS equations are updated yearly to reflect recent sale data and costs, most recently on January 1, 2025. Stumpage rates are also adjusted monthly to reflect changes in inflation and market variables including lumber prices, housing starts in Canada, the US, and Japan, and BC Coast harvest levels.

There can be no assurance that future changes to the stumpage system or the Province's administrative policy will not have a material impact on the stumpage fees payable by us and consequently affect our financial condition and results of operations.

International Business and Risks of Exchange Rate Fluctuations

Western's products are sold in international markets. Economic conditions in those markets, the strength of the housing starts in the US and Japan, the rate of development in China, fluctuations in foreign exchange rates and international sensitivity to interest rates, can all have a significant effect on our financial condition and results of operations. In general, our sales are subject to the risks of international business, including:

- fluctuations in foreign currencies;
- changes in the economic strength of the countries in which we conduct business;
- trade disputes, tariffs and other barriers;
- changes in regulatory requirements;
- quotas, duties, taxes and other charges or restrictions upon exports or imports;
- transportation costs and the availability of carriers of any kind including those by land or sea;
- availability of substitute wood products;
- availability of fibre supply for domestic manufacture of lumber in foreign country; and
- strikes or labour disputes in the transportation industry or related dock or container service industries.

Depending on product mix, destination and exchange rates, generally between 45% and 55% of our total product sales are denominated in USD and between 1% and 5% in JPY. While the Canadian operations also incur some USD-denominated expenses, primarily for ocean freight and other transportation, and for CV and AD duties, most expenses are incurred in CAD. The Company's operations in the US transact primarily in USD. The Company's functional currency is the CAD and financial results are reported in CAD. Significant variations in relative currency values, particularly significant changes in the value of the CAD relative to the USD, have had, and in the future could have, a material impact on our operating earnings and cash flows.

Long-Term Competition

The markets for our products are highly competitive and some of our competitors have substantially greater financial resources than Western. We also compete indirectly with firms that manufacture substitutes for solid wood products, including non-wood and engineered wood products. While the principal basis for competition is price, we also compete to a lesser extent on the basis of quality and customer service. In addition, market acceptance of the environmental sustainability of our products as compared with substitutes could be a challenge in the future. Changes in the level of competition, industry capacity and the global economy have had, and are expected to continue to have, a significant impact on the selling prices of the Company's products and the overall profitability of the Company. Our competitive position will be influenced by factors including the availability, quality and cost of fibre, energy and labour, plant efficiencies and productivity in relation to our competitors, and applicability of duties, tariffs or other charges. Our competitive position could be affected by fluctuations in the value of the CAD relative to the USD and/or the JPY, and by changes in the treatment of softwood lumber shipments to the US.

Variable Operating Performance, Product Pricing and Demand Levels

A key factor affecting Western's operating and financial performance is the price received for lumber, logs and other products. Prices for these products are highly cyclical and have fluctuated significantly in the past and may fluctuate significantly in the future. The markets for our products are also highly cyclical and are characterized by periods of excess product supply due to many factors, including:

- Additions/curtailments to industry capacity and production;
- Periods of insufficient demand due to weak economic activity or other causes, including weather;
- Customers experiencing reduced access to credit; and
- Inventory de-stocking by customers.

Product demand is influenced to a significant degree by economic activity at the global level. Additionally, although costs may increase, customers may not accept related price increases for those products. We are not able to predict with certainty market conditions and prices for our products. Western's results of operations depend upon the prices we receive for lumber, logs and chips, and deterioration in prices of, or demand for,

these products could have a material adverse effect on our financial condition or results of operations. We cannot provide any assurance or prediction as to the timing and extent of any price changes.

Western's financial performance is also dependent on the rate at which production capacity is utilized. In times of challenging conditions in any of our major markets the Company maintains inventory control by aligning log supply and lumber production with anticipated sales volumes. When capacity utilization is reduced in response to weak demand for products, the cost per unit of production may increase and profitability decrease.

From time to time and in accordance with market influences, the Company will reduce production with temporary logging and/or sawmilling curtailments. In extreme cases, such curtailments may become permanent closures. When Western undertakes significant market-related curtailments of sawmills, the volume of chips produced is reduced and accordingly there is greater risk that the Company may not meet minimum contractual obligations under long-term chip supply agreements without incurring additional cost.

Softwood Lumber Dispute

The SLA, under which the Company's exports to the US could be assessed an export tax by the Canadian Government, expired on October 12, 2015, eliminating export tax measures on Canadian softwood lumber shipments to the US.

The twelve-month standstill period of the SLA, which precluded the US from bringing trade action against Canadian softwood lumber producers, expired October 12, 2016. On November 25, 2016, the US Lumber Coalition petitioned the DoC and the ITC seeking CV and AD on Canadian softwood lumber shipments to the US. On January 6, 2017, the ITC concluded that there was "reasonable indication" that softwood lumber products from Canada materially injured US producers; and, as a result, the DoC imposed duties on Canadian shipments of softwood lumber into the US.

From 2017 onward, as a result of petitions filed by the US Lumber Coalition, and others, and determinations made by the ITC, the DoC imposed CV and AD on shipments to the US from Canada. As a result of these actions, cash deposits for CV were required for Canadian lumber imports to the US effective April 28, 2017 through August 25, 2017, and from December 28, 2017 onwards; and cash deposits for AD were required for Canadian lumber imports to the US effective June 30, 2017 until December 26, 2017, and from December 28, 2017 onwards.

As each DoC AR of a shipment year is completed, final rates are published in the federal register and a revised cash deposit rate is established until publication of final rates of the next AR.

The Company expenses export taxes at the cash duty deposit rate as lumber shipments are made. Where final duty rates differed from cash deposit rates, the Company recognized revisions to its export tax expense.

As cash deposit rates exceeded final duty rates for lumber shipments made in 2017 through 2022, the Company recognized a long-term interest-bearing duty receivable totalling USD\$47.3 million (CAD\$68.1 million), of which USD\$0.8 million (CAD\$1.0 million) was recognized as an export tax recovery in 2024. This recovery was netted against export tax expense of \$25.5 million, resulting in a net export tax of \$24.5 million.

Under US law, the DoC and US International Trade Commission ("USITC") are required to conduct a sunset review no later than five years after an AD or CV order is issued. The DoC review determines whether revoking the orders would be likely to lead to a continuation or recurrence of dumping or subsidies. The USITC review determines whether revoking the orders would be likely to lead to a continuation or recurrence of material injury to the US industry. If both determinations are negative, the orders will be revoked.

On March 27 and April 3, 2023, the DoC issued the final results of its first sunset review of the CV and AD orders, respectively, concluding that if duties on Canadian softwood lumber products were revoked, there would likely be a continuation or recurrence of countervailable subsidies and dumping.

On October 5, 2023, the NAFTA Chapter 19 panel determined that the DoC erred in how it calculated important aspects of the anti-dumping duties applied to Canadian softwood lumber exports and directed the DoC to revisit key elements of its dumping determination.

On November 30, 2023, the USITC issued its final determination under the sunset review, concurring with the DoC conclusion. The USITC filed its final determination in the Federal Register on December 21, 2023, resulting in a continuation of the CV and AD orders.

On January 17, 2024, the Government of Canada filed a notice of intent to challenge the ITC decision to maintain duties on Canadian softwood lumber products, under Chapter 10 of the Canada-United States-Mexico Agreement.

On March 5, 2024, the DoC initiated its sixth AR of CV and AD for shipments in 2023. On January 17, 2025, the DoC announced that it would issue the preliminary results for sixth AR AD by February 20, 2025, but has not yet announced a timeline for the CV preliminary results. As a result, the final AD rates for 2023 shipments are now expected in late August 2025, and CV final rates are anticipated in early November 2025.

On August 12, 2024, the DoC released its final determination for CV and AD rates from its fifth AR for shipments in 2022, and on September 24, 2024 amended the AD rate to correct a ministerial calculation error. Accordingly, the Company recognized an additional export tax recovery of USD\$0.8 million (CAD\$1.0 million) in 2024. Effective August 19, 2024, cash deposits will continue at the revised combined duty rate of 14.40% until publication of final rates of the sixth AR in the federal register, after which time the new rates will apply.

The following table summarizes the cash deposit rates in effect and the final rates applicable to Canadian lumber shipments to the US in 2017 through 2022:

Lumber shipment date	Aug. 1, 2023	Aug. 9, 2022	Jan. 10, 2022	Dec. 1, 2021	Dec. 1, 2020	Jan. 1, 2020	Year			
	Aug. 19, 2024 onward	through Aug. 18, 2024	through Jul. 31, 2023	through Aug. 8, 2022	through Jan. 9, 2022	through Nov. 2021	through Nov. 2020	2019	2018	2017
Cash deposit rate										
CV	6.74%	1.79%	3.83%	6.32%	6.31%	7.42%	14.19%	14.19%	14.19%	14.19%
AD	7.66%	6.26%	4.76%	11.59%	11.59%	1.57%	6.04%	6.04%	6.04%	6.04%
Combined	14.40%	8.05%	8.59%	17.91%	17.90%	8.99%	20.23%	20.23%	20.23%	20.23%

Lumber shipment year	AR5 2022 Final	AR4 2021 Final	AR3 2020 Final	AR2 2019 Final	AR1 2018 Final	AR1 2017 Final
Duty rate						
CV	6.74%	1.79%	3.83%	6.32%	7.42%	7.26%
AD	7.66%	6.26%	4.76%	11.59%	1.57%	1.57%
Combined	14.40%	8.05%	8.59%	17.91%	8.99%	8.83%

At December 31, 2024, including interest of USD\$10.2 million (2023: USD\$6.8 million), the duty receivable of USD\$57.5 million (2023: USD\$53.4 million) was revalued at the year-end exchange rate to CAD\$82.7 million (2023: CAD\$70.8 million).

As at December 31, 2024, the Company had paid \$264 million (USD\$184 million) of duties, all of which remain held in trust by US Department of Treasury (2023: \$219 million (USD\$165 million)). With the exception of USD\$47.3 million (CAD\$68.1) of duty deposits recognized as a receivable, all duty deposits have been expensed at the cash deposit rates in effect at the date of payment.

This dispute may have an adverse impact on our financial condition and could also result in increased costs resulting from the administrative burden of such proceedings. The Canadian Federal Government is appealing the US findings and, as in previous trade cases, the softwood lumber dispute may take years to resolve through the legal process and remains open to a negotiated settlement at any time. Based on the foregoing, it is unclear at this time when any duty amounts paid will be recovered or if amounts paid in excess of the amended final rates will be refunded.

Incremental US Tariffs

On February 1, 2025, US President Donald Trump signed an executive order imposing a tariff of 25% on imported goods from Canada to the US with an originally planned implementation date of February 4, 2025. On February 3, 2025, the implementation date was delayed to March 4, 2025. The incremental US tariff is in addition to the existing combined US Softwood Lumber CV and AD rates of 14.40% which the Company is currently subject to.

Pulp and Paper Market Variability

The selling price in CAD of our residual wood chips is tied by formula to published indices that reflect the USD selling price of NBSK pulp. Fluctuations in pulp prices and foreign currencies will accordingly impact the selling price of our residual wood chips. The price and demand for the pulp logs and other logs sold to pulp and paper companies is also dependent on the market conditions for pulp and paper. If there is a contraction in the coastal

pulp and paper industry, we may need to find alternative customers for the pulp logs and residual chips and hog fuel from our sawmills.

Reliance on Management and Other Key Personnel

Western relies upon the experience and expertise of our personnel. No assurance can be given that we will be able to retain our current personnel and attract additional personnel as necessary for the development and operation of our business. Loss of or failure to attract and retain key personnel could have a material adverse effect on Western's business.

Information Technology Security

Western relies on information technology systems to facilitate harvesting, log purchasing and reforestation activities, operation of our manufacturing facilities, interactions with banks, vendors, customers and employees and reporting on our business. Interruption or failure of these systems due to cyber-based attacks, vandalism, theft, power quality, data corruption, internal disaster such as water or fire damage, natural disaster or failure to recognize and action hardware or software life-cycling may result in operational disruption or failure, and/or the misappropriation of sensitive or proprietary data. Such events could have a negative impact on Western's reputation or subject the Company to potential liability, proceedings by affected parties, civil or criminal penalties. Interruption or failure of these systems could result in material adverse effect on Western's business.

While the Company believes current security measures and disaster recovery plans to be adequate, we monitor, develop, test and enhance our security measures, life-cycling process, internal controls, policies, training and procedures designed to protect information technology systems from attack, damage or unauthorized access and restore systems, in the event of a breach.

Environmental Regulation

We are subject to extensive federal and provincial environmental laws and regulations. These laws and regulations impose stringent standards on our operations and impose liability to remedy environmental issues that we are legally responsible regarding, among other things:

- air emissions, effluent discharges, and land disposal;
- operations or activities affecting watercourses or the natural environment;
- operations or activities affecting species at risk and critical habitats;
- use and handling of hazardous materials;
- use, handling, and disposal of waste; and
- remediation of environmental contamination.

We may incur substantial costs to comply with current or future requirements, to respond to orders or directives issued by regulators, to remedy or to compensate others for the cost to remedy environmental issues for which we are legally responsible or to comply with new or updated environmental laws. In addition, we may discover currently unknown environmental issues or conditions affecting our operations or activities or for which we are otherwise legally responsible. Western has closed certain operations and although we have engaged specialists to advise of environmental issues and conditions, normal site clean-up may identify additional issues or conditions that required further investigations. Any such event could have a material adverse effect on our financial condition and results of operations.

Safety

The Company's safety policy reflects its values and commitment to providing a healthy and safe workplace for its people, while at the same time ensuring compliance with our regulatory requirements under WorkSafeBC and other applicable regulations. Workplace safety laws and regulations change over time and may involve new methodologies and additional costs necessary to bring the Company into compliance. We are unable to assess the potential implication of such changes.

Forest Resource Risk, Natural Catastrophes and Climate Change

Our timber tenures are subject to the risks associated with all standing forests, in particular wildfires, windstorms, insect infestations and disease. Procedures and controls are in place to try and mitigate such risk through prevention and early detection. Our insurance coverage is maintained only for loss of logs following

harvesting due to fire and other occurrences. This coverage does not extend to standing timber, and there is no assurance that this coverage would be adequate to provide protection against all eventualities, including natural catastrophes. In 2016, Western entered into a cost-sharing agreement with the Crown for our private timberlands to share individual incident costs of mobilizing helicopters and aerial water tankers in the event of a fire on those lands.

In addition, our operations may be adversely affected by severe weather including wind, snow and rain that may result in our operations being unable to harvest or transport logs to our manufacturing facilities for extended periods of time. Although we anticipate and factor in a certain period of down-time due to weather, extended periods of severe or unusual weather may adversely impact our financial results due to higher costs and missed sales opportunities arising from fibre shortages or the deterioration of logs remaining on the ground or in the water for extended periods of time.

Other than the sales office in Japan, our business operations are located on the BC coast and the US Pacific Northwest, which are geologically active and considered to be at risk from earthquakes.

Climate change over time is predicted to lead to changes in the frequency of storm events as well as their severity.

We may also see changes in the occurrence of wildfires and forest pest outbreaks. This may impact our operations, our timber supply or the operations of our customers. Long-term climatic models are predicting that the optimum ranges of many species, including those of our major tree species, may shift over time. While we are unable to predict the impact of all of these potential factors on our tenures or on forest practices, we have incorporated considerations for climate change in our reforestation practices as facilitated through Provincial policy and legislation.

While the Company maintains insurance coverage to the extent deemed prudent by us, we cannot guarantee that all potential insurable risks have been foreseen or that adequate coverage is maintained against known risks.

Transportation

The Company depends on third parties for transportation of its products and raw materials, a significant portion of which are transported by tugs and barges, trucks, railways, and ships. If any of Western's third-party transportation providers were to fail to deliver the raw materials or products or distribute them in a timely manner, including due to seasonal factors, Western may not be able to manufacture its products or sell those products at full value, which could have a material adverse effect on the Company's financial condition and operating results. In addition, if any of these third parties were to cease operations, suffer labour-related or route disruptions, or cease doing business with Western, the Company's operations or cost structure may be adversely impacted.

Employees and Labour Relations

Hourly paid employees at our Canadian manufacturing facilities and timber harvesting operations are unionized. The majority of the unionized employees are represented by the USW. 944 Western employees represented by the USW are covered by a six-year collective agreement that expires on June 14, 2030.

The Public and Private Workers of Canada ("PPWC") represents the remaining unionized employees. PPWC members of our Ladysmith Sawmill are covered by an eight-year collective agreement that was ratified in February 2021 and expires in December 2028. The PPWC also represents the unionized employees at our Value-Added Remanufacturing operation with whom we have a collective agreement that runs through October 2029.

Long-term Fibre Supply Agreements

The Company has long-term commitments to supply chip fibre, saw logs and pulp logs to third parties. Certain of these fibre supply agreements have minimum volume requirements. A failure to supply the minimum volumes may result in additional costs or deferred obligations. If the Company is unable to produce the minimum volume, we may need to conduct whole log chipping, sell saw logs, purchase chips or pulp logs or incur a penalty under these fibre supply agreements.

Dividends

Any decision to declare and pay dividends in the future will be made at the discretion of our Board of Directors, after taking into account our operating results, financial condition, cash requirements, financing agreement

restrictions and other factors our Board may deem relevant. We may be unable or may elect not to declare and pay dividends, even if necessary financial conditions are met and sufficient cash is available for distribution.

Evaluation of Disclosure Controls and Procedures

As required by National Instrument 52-109, *Certification of Disclosure in Issuers' Annual and Interim Filings*, Western conducted an evaluation of the effectiveness of the disclosure controls and procedures and the system of internal control over financial reporting based on the "Internal Control – Integrated Framework" issued by the Committee of Sponsoring Organizations of the Treadway Commission. Based on this evaluation, management concluded that the Company's system of internal control over financial reporting was effective as at December 31, 2024.

The evaluation was carried out under the supervision and with the participation of the Chief Executive Officer ("CEO") and the Chief Financial Officer ("CFO"). Based on the evaluation, Western's CEO and CFO concluded that the Company's disclosure controls and procedures are effective in providing reasonable assurance that material information relating to Western and its consolidated subsidiaries is made known to them by others within those entities, particularly during the period in which the annual filings are being prepared. In addition, Western's CEO and CFO concluded that the Company's internal controls over financial reporting are effective in providing reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for Western and its consolidated subsidiaries for the period in which the annual filings are being prepared.

The CEO and CFO confirm that there have been no changes or material weaknesses in the design or operating effectiveness of the Company's internal controls over financial reporting that have materially affected, or are reasonably likely to materially affect, the Company's internal controls over financial reporting during the year ended December 31, 2024.

Outstanding Share Data

As of February 13, 2025, there were 316,745,557 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 year ended December 31, 2024, no options were granted, exercised, or forfeited and 1,248,000 options expired. As of February 13, 2025, 10,238,679 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.sedarplus.ca.

Appendix A – Summary of Selected Results of the Last Eight Quarters

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

	2024					2023					
	2024	Q4	Q3	Q2	Q1	2023	Q4	Q3	Q2	Q1	
Avg. exchange rate – USD to CAD	1.370	1.399	1.364	1.368	1.348	1.350	1.361	1.341	1.343	1.352	
Avg. exchange rate – CAD to USD	0.730	0.715	0.733	0.731	0.742	0.741	0.734	0.746	0.745	0.740	
Financial Performance											
Revenue											
Lumber	\$ 817.1	\$ 214.3	\$ 189.9	\$ 235.3	\$ 177.6	\$ 781.6	\$ 178.3	\$ 179.9	\$ 212.4	\$ 211.0	
Logs	188.0	46.5	39.9	56.5	45.1	180.9	51.1	38.4	52.8	38.6	
By-products	41.7	9.7	9.1	12.4	10.5	39.8	9.9	7.2	9.4	13.3	
Forestry services and other	17.1	2.7	2.8	5.3	6.3	15.2	7.3	5.6	1.4	0.9	
Total revenue	\$1,063.9	\$ 273.2	\$ 241.7	\$ 309.5	\$ 239.5	\$1,017.5	\$ 246.6	\$ 231.1	\$ 276.0	\$ 263.8	
Adjusted EBITDA	\$ 8.9	\$ 14.4	\$ (10.7)	\$ 9.4	\$ (4.2)	\$ (29.9)	\$ (1.2)	\$ (11.6)	\$ (12.0)	\$ (5.0)	
Adjusted EBITDA margin	1%	5%	(4%)	3%	(2%)	(3%)	(0%)	(5%)	(4%)	(2%)	
Net loss	\$ (34.5)	\$ (1.2)	\$ (19.6)	\$ (5.7)	\$ (8.0)	\$ (70.1)	\$ (14.3)	\$ (17.4)	\$ (20.7)	\$ (17.7)	
Loss per share, basic and diluted	\$ (0.10)	\$ (0.00)	\$ (0.06)	\$ (0.01)	\$ (0.02)	\$ (0.22)	\$ (0.04)	\$ (0.05)	\$ (0.07)	\$ (0.05)	
Operating Statistics											
Lumber⁽¹⁾⁽²⁾											
Production	mmfbm	558	135	127	151	145	561	125	126	148	162
Shipments	mmfbm	588	146	138	173	131	588	136	130	153	170
Price	\$/mfbm	\$ 1,390	\$ 1,467	\$ 1,378	\$ 1,363	\$ 1,351	\$ 1,329	\$ 1,313	\$ 1,388	\$ 1,392	\$ 1,241
Logs⁽³⁾											
Net production	000 m ³	2,768	673	659	820	617	2,952	718	678	935	621
Saw log purchases	000 m ³	750	234	215	172	129	675	200	116	167	192
Log availability	000 m ³	3,518	906	874	992	746	3,627	918	794	1,102	813
Shipments	000 m ³	1,378	355	347	339	337	1,384	446	324	370	245
Price ⁽⁴⁾	\$/m ³	\$ 129	\$ 121	\$ 113	\$ 155	\$ 129	\$ 122	\$ 112	\$ 118	\$ 129	\$ 135
Dividends											
Dividends paid	\$ millions	\$ -	\$ -	\$ -	\$ -	\$ -	\$ 11.9	\$ -	\$ 4.0	\$ 3.9	\$ 4.0
Non-GAAP Financial Measures											
Net loss	\$ (34.5)	\$ (1.2)	\$ (19.6)	\$ (5.7)	\$ (8.0)	\$ (70.1)	\$ (14.3)	\$ (17.4)	\$ (20.7)	\$ (17.7)	
Add:											
Amortization	54.7	14.3	13.6	13.6	13.2	53.7	13.3	14.1	13.2	13.1	
Changes in fair value of biological assets	0.7	0.6	0.1	(0.1)	-	(0.2)	-	-	(0.1)	-	
Operating restructuring items	5.5	2.1	1.9	1.7	(0.2)	7.5	0.9	(0.2)	1.6	5.2	
Other expense (income)	(6.5)	(4.8)	0.7	(0.6)	(1.8)	1.2	2.5	(2.2)	0.8	0.1	
Finance costs	6.7	1.8	1.2	1.6	2.1	3.0	1.8	0.5	0.5	0.2	
Income tax expense (recovery)	(17.6)	1.7	(8.6)	(1.3)	(9.4)	(25.0)	(5.3)	(6.5)	(7.3)	(5.9)	
Adjusted EBITDA	\$ 8.9	\$ 14.4	\$ (10.7)	\$ 9.4	\$ (4.2)	\$ (29.9)	\$ (1.2)	\$ (11.6)	\$ (12.0)	\$ (5.0)	
Divided by total revenue	1,063.9	273.2	241.7	309.5	239.5	1,017.5	246.6	231.1	276.0	263.8	
Adjusted EBITDA margin	1%	5%	(4%)	3%	(2%)	(3%)	(0%)	(5%)	(4%)	(2%)	

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

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

(2) Includes glue-laminated wood products.

(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 average realized log price per cubic metre has been presented on a gross basis, which may include fee-in-lieu and shipping charges incurred on behalf of customers to facilitate sales to export markets.

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 and renovation and repair activity, particularly in the US, has historically tended to be higher. Log production is greater in that same period as longer daylight permits more hours of operations. 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 third quarter as it builds log inventory during optimal harvest conditions and builds lumber inventory in advance of seasonally high lumber demand.

The Company's quarterly financial trends are most impacted by typical industry-wide seasonality, levels of lumber production, log costs, market prices for lumber, labour disputes, the USD/CAD exchange rate, long term asset impairments and restructuring charges, and disposals of non-core properties.

In late 2023 and in 2024, certain BC manufacturing facilities were curtailed and log production was lowered to match fibre requirements in our manufacturing facilities.



CONSOLIDATED FINANCIAL STATEMENTS

MANAGEMENT’S RESPONSIBILITY FOR FINANCIAL STATEMENTS

The Management of Western Forest Products Inc. (“Western” or the “Company”) is responsible for the accompanying Consolidated Financial Statements and all other information in the Management’s Discussion and Analysis. The Consolidated Financial Statements have been prepared by Management in accordance with IFRS Accounting Standards as issued by the International Accounting Standards Board and, where necessary, reflect Management’s best estimates and judgements at this time. The financial information presented throughout the Management’s Discussion and Analysis dated February 13, 2025, is consistent with that contained in the Consolidated Financial Statements.

Western maintains systems of internal accounting controls, policies and procedures which it believes provides reasonable assurance as to the reliability of the financial records and the safeguarding of its assets. The internal accounting control process includes the prudent hiring and training of personnel, adoption and communication of appropriate policies, procedures and controls, and employment of an internal audit program.

The Board of Directors is responsible for ensuring that Management fulfills its responsibilities for financial reporting and internal controls. The Board exercises this responsibility primarily through its Audit Committee, which is composed solely of independent directors of the Company. The Audit Committee meets periodically with Management and the Company’s independent Auditors to satisfy itself that each group is properly discharging its responsibilities and to review the consolidated financial statements and the independent Auditors’ report thereon. The Company’s independent Auditors have full and free access to the Audit Committee. The Audit Committee reports its findings to the Board of Directors for consideration in approving the consolidated financial statements for issuance to the shareholders. The Committee also makes recommendations to the Board with respect to the appointment and remuneration of the independent Auditors.

The Consolidated Financial Statements have been audited by KPMG LLP, who were appointed by the shareholders at the annual shareholders’ meeting. The Auditors’ Report follows.

“Steven Hofer”

Steven Hofer
President & Chief Executive Officer

“Glen Nontell”

Glen Nontell
Chief Financial Officer

February 13, 2025



KPMG LLP
PO Box 10426 777 Dunsmuir Street
Vancouver BC V7Y 1K3
Canada
Telephone (604) 691-3000
Fax (604) 691-3031

INDEPENDENT AUDITOR'S REPORT

To the Shareholders of Western Forest Products Inc.

Opinion

We have audited the consolidated financial statements of Western Forest Products Inc. (the Entity), which comprise:

- the consolidated statements of financial position as at December 31, 2024 and December 31, 2023
- the consolidated statements of comprehensive loss for the years then ended
- the consolidated statements of changes in equity for the years then ended
- the consolidated statements of cash flows for the years then ended
- and notes to the consolidated financial statements, including a summary of material accounting policies

(Hereinafter referred to as the "financial statements").

In our opinion, the accompanying financial statements present fairly, in all material respects, the consolidated financial position of the Entity as at December 31, 2024 and December 31, 2023, and its consolidated financial performance and its consolidated cash flows for the years then ended in accordance with IFRS Accounting Standards as issued by the International Accounting Standards Board.

Basis for Opinion

We conducted our audit in accordance with Canadian generally accepted auditing standards. Our responsibilities under those standards are further described in the "**Auditor's Responsibilities for the Audit of the Financial Statements**" section of our auditor's report.

We are independent of the Entity in accordance with the ethical requirements that are relevant to our audit of the financial statements in Canada and we have fulfilled our other ethical responsibilities in accordance with these requirements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.



Key Audit Matters

Key audit matters are those matters that, in our professional judgment, were of most significance in our audit of the financial statements for the year ended December 31, 2024. These matters were addressed in the context of our audit of the financial statements as a whole, and in forming our opinion thereon, and we do not provide a separate opinion on these matters.

We have determined the matter described below to be the key audit matter to be communicated in our auditor's report.

Assessment of log and lumber inventory net carrying value

Description of the matter

We draw attention to Note 4 to the financial statements. The inventory net carrying value is \$217.1 million, of which \$196.3 million relates to log and lumber inventory. The Entity records inventory at the lower of cost and net realizable value. The determination of cost involves the use of complex models. The Entity determines the cost of lumber inventory using the average cost of production based on the species and facility where they were produced and the cost of log inventory by end sort using the average cost of production by operation based on the operational area in which the logs were produced. Net realizable value is the estimated selling price in the ordinary course of business, less estimated costs of completion and selling expenses.

Why the matter is a key audit matter

We identified the assessment of the log and lumber inventory net carrying value as a key audit matter. This matter represented an area of significant risk given the magnitude of log and lumber inventory and the complexity of the models. In addition, significant auditor judgment was required to evaluate the Entity's selling prices used to estimate net realizable value.

How the matter was addressed in the audit

The primary procedures we performed to address this key audit matter included the following:

- We evaluated the design and tested the operating effectiveness of certain controls over the Entity's inventory models including controls over log and lumber production volumes which were an input into the models
- We assessed the logic used in the models in calculating the average cost of log and lumber inventory by testing the accuracy of calculations in the models for a selection of logging operations and lumber facilities
- For a selection of logging operations and lumber facilities, we compared the models' inputs for volumes and costs to production and cost reports. We assessed the models' outputs by comparing the average cost of lumber by species and facility and logs by operation to the prior year average cost
- We compared the Entity's estimated selling prices used in the determination of net realizable value to actual sales prices for sales made subsequent to year end and to market price publications by third party industry analysts.

Other Information

Management is responsible for the other information. Other information comprises:

- the information included in Management's Discussion and Analysis filed with the relevant Canadian Securities Commissions.
- the information, other than the financial statements and the auditor's report thereon, included in a document likely to be entitled "Annual Report".

Our opinion on the financial statements does not cover the other information and we do not and will not express any form of assurance conclusion thereon.



In connection with our audit of the financial statements, our responsibility is to read the other information identified above and, in doing so, consider whether the other information is materially inconsistent with the financial statements or our knowledge obtained in the audit and remain alert for indications that the other information appears to be materially misstated.

We obtained the information included in Management's Discussion and Analysis filed with the relevant Canadian Securities Commissions and the information included in the "Annual Report", as at the date of this auditors' report. If, based on the work we have performed on this other information, we conclude that there is a material misstatement of this other information, we are required to report that fact in the auditors' report.

We have nothing to report in this regard.

Responsibilities of Management and Those Charged with Governance for the Financial Statements

Management is responsible for the preparation and fair presentation of the financial statements in accordance with IFRS Accounting Standards as issued by the International Accounting Standards Board, and for such internal control as management determines is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.

In preparing the financial statements, management is responsible for assessing the Entity's ability to continue as a going concern, disclosing as applicable, matters related to going concern and using the going concern basis of accounting unless management either intends to liquidate the Entity or to cease operations, or has no realistic alternative but to do so.

Those charged with governance are responsible for overseeing the Entity's financial reporting process.

Auditor's Responsibilities for the Audit of the Financial Statements

Our objectives are to obtain reasonable assurance about whether the financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinion.

Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with Canadian generally accepted auditing standards will always detect a material misstatement when it exists.

Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of the financial statements.

As part of an audit in accordance with Canadian generally accepted auditing standards, we exercise professional judgment and maintain professional skepticism throughout the audit.

We also:

- Identify and assess the risks of material misstatement of the financial statements, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for our opinion.

The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control.

- Obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Entity's internal control.
- Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by management.



- Conclude on the appropriateness of management's use of the going concern basis of accounting and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the Entity's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our auditor's report to the related disclosures in the financial statements or, if such disclosures are inadequate, to modify our opinion. Our conclusions are based on the audit evidence obtained up to the date of our auditor's report. However, future events or conditions may cause the Entity to cease to continue as a going concern.
- Evaluate the overall presentation, structure and content of the financial statements, including the disclosures, and whether the financial statements represent the underlying transactions and events in a manner that achieves fair presentation.
- Communicate with those charged with governance regarding, among other matters, the planned scope and timing of the audit and significant audit findings, including any significant deficiencies in internal control that we identify during our audit.
- Provide those charged with governance with a statement that we have complied with relevant ethical requirements regarding independence, and communicate with them all relationships and other matters that may reasonably be thought to bear on our independence, and where applicable, related safeguards.
- Plan and perform the group audit to obtain sufficient appropriate audit evidence regarding the financial information of the entities or business units within the group as a basis for forming an opinion on the group financial statements. We are responsible for the direction, supervision and review of the audit work performed for the purposes of the group audit. We remain solely responsible for our audit opinion.
- Determine, from the matters communicated with those charged with governance, those matters that were of most significance in the audit of the financial statements of the current period and are therefore the key audit matters. We describe these matters in our auditor's report unless law or regulation precludes public disclosure about the matter or when, in extremely rare circumstances, we determine that a matter should not be communicated in our auditor's report because the adverse consequences of doing so would reasonably be expected to outweigh the public interest benefits of such communication.

KPMG LLP

Chartered Professional Accountants

The engagement partner on the audit resulting in this auditor's report is John Milne.

Vancouver, Canada

February 13, 2025

Western Forest Products Inc.
Consolidated Statements of Financial Position
(Expressed in millions of Canadian dollars)

	December 31, 2024	December 31, 2023
Assets		
Current assets:		
Cash and cash equivalents	\$ 7.9	\$ 2.3
Trade and other receivables	60.1	50.9
Inventory ^(Note 4)	217.1	213.5
Prepaid expenses and other assets	35.0	33.9
Assets held for sale ^(Note 5)	7.4	10.8
Income taxes receivable ^(Note 15)	6.6	23.5
	<u>334.1</u>	<u>334.9</u>
Non-current assets:		
Property, plant and equipment ^(Note 6)	349.6	354.4
Timber licenses ^(Note 7)	88.2	92.3
Biological assets ^(Note 8)	48.6	49.3
Other assets ^(Note 9)	87.4	77.4
Goodwill ^(Note 10)	7.5	6.9
Deferred income tax assets ^(Note 15)	0.1	0.2
	<u>\$ 915.5</u>	<u>\$ 915.4</u>
Liabilities and Equity		
Current liabilities:		
Bank indebtedness	\$ -	\$ 0.9
Accounts payable and accrued liabilities	110.7	102.8
Liabilities directly associated with assets held for sale ^(Note 5)	0.3	0.3
Income taxes payable ^(Note 15)	-	0.2
Lease liabilities ^(Note 12)	6.7	6.9
Reforestation obligation ^(Note 13)	7.3	7.9
Deferred revenue ^(Notes 21, 24)	2.0	2.0
	<u>127.0</u>	<u>121.0</u>
Non-current liabilities:		
Long-term debt ^(Note 11)	85.5	83.8
Lease liabilities ^(Note 12)	12.8	13.0
Reforestation obligation ^(Note 13)	14.6	14.2
Other liabilities ^(Note 14)	11.8	11.4
Deferred revenue ^(Notes 21, 24)	40.5	42.5
Deferred income tax liabilities ^(Note 15)	57.0	61.6
	<u>349.2</u>	<u>347.5</u>
Equity:		
Share capital ^(Note 16)	405.4	405.4
Contributed surplus	8.9	8.8
Translation reserve	8.1	1.9
Retained earnings	135.8	148.9
Total equity attributable to equity shareholders of the Company	<u>558.2</u>	<u>565.0</u>
Non-controlling interest ^(Note 17)	8.1	2.9
	<u>\$ 915.5</u>	<u>\$ 915.4</u>

Commitments and contingencies ^(Note 21)

Subsequent events ^(Note 31)

See accompanying notes to these consolidated financial statements.

Approved on behalf of the Board:

"Daniel Nocente"
Chair

"Steven Hofer"
President & Chief Executive Officer

Western Forest Products Inc.
Consolidated Statements of Comprehensive Loss
(Expressed in millions of Canadian dollars except for per share amounts)

	Year ended December 31,	
	2024	2023
Revenue ^(Note 24)	\$ 1,063.9	\$ 1,017.5
Costs and expenses:		
Cost of goods sold	973.7	966.6
Freight	69.1	75.6
Export tax ^{(Note 21(a))}	24.5	15.9
Selling and administration	43.0	42.8
	<u>1,110.3</u>	<u>1,100.9</u>
Operating loss prior to restructuring and other items	(46.4)	(83.4)
Operating restructuring items ^(Note 25)	(5.5)	(7.5)
Other income (expense) ^(Note 26)	6.5	(1.2)
Operating loss	(45.4)	(92.1)
Finance costs ^(Note 27)	(6.7)	(3.0)
Loss before income taxes	(52.1)	(95.1)
Income tax recovery ^(Note 15)		
Current	(5.8)	(21.5)
Deferred	(11.8)	(3.5)
	<u>(17.6)</u>	<u>(25.0)</u>
Net loss	(34.5)	(70.1)
Net loss attributable to equity shareholders of the Company	(30.4)	(68.5)
Net loss attributable to non-controlling interest	(4.1)	(1.6)
	<u>(34.5)</u>	<u>(70.1)</u>
Other comprehensive loss		
Items that will not be reclassified to profit or loss:		
Employee future benefits actuarial loss ^(Note 22)	(1.2)	(0.3)
Income tax recovery ^(Note 15)	0.3	0.1
Total items that will not be reclassified to profit or loss	<u>(0.9)</u>	<u>(0.2)</u>
Items that may be reclassified subsequently to profit or loss:		
Foreign currency translation differences for foreign operations	6.2	(1.7)
Total comprehensive loss	<u>\$ (29.2)</u>	<u>\$ (72.0)</u>
Loss per share (in dollars) ^(Note 19)		
Basic and diluted	\$ (0.10)	\$ (0.22)

See accompanying notes to these consolidated financial statements.

Western Forest Products Inc.
Consolidated Statements of Changes in Equity
(Expressed in millions of Canadian dollars)

	Share Capital	Contributed Surplus	Translation Reserve	Retained Earnings	Non- controlling Interest	Total Equity
Balance as at December 31, 2022	\$ 405.4	\$ 9.1	\$ 3.6	\$ 229.1	\$ 4.5	\$ 651.7
Net loss	-	-	-	(68.5)	(1.6)	(70.1)
Other comprehensive income (loss):						
Employee future benefits actuarial loss ^{(Note 22(c))}	-	-	-	(0.3)	-	(0.3)
Income tax recovery on actuarial loss ^(Note 15)	-	-	-	0.1	-	0.1
Foreign currency translation differences for foreign operations	-	-	(1.7)	-	-	(1.7)
Total comprehensive loss	-	-	(1.7)	(68.7)	(1.6)	(72.0)
Stock options recognized in equity ^{(Note 18(a))}	-	-	-	-	-	-
Exercise of stock options ^{(Notes 18(a))}	-	(0.3)	-	0.4	-	0.1
Dividends	-	-	-	(11.9)	-	(11.9)
Total transactions with owners, recorded directly in equity	-	(0.3)	-	(11.5)	-	(11.8)
Balance as at December 31, 2023	405.4	8.8	1.9	148.9	2.9	567.9
Net loss	-	-	-	(30.4)	(4.1)	(34.5)
Other comprehensive income (loss):						
Employee future benefits actuarial loss ^{(Note 22(c))}	-	-	-	(1.2)	-	(1.2)
Income tax recovery on actuarial loss ^(Note 15)	-	-	-	0.3	-	0.3
Foreign currency translation differences for foreign operations	-	-	6.2	-	-	6.2
Total comprehensive income (loss)	-	-	6.2	(31.3)	(4.1)	(29.2)
Stock options recognized in equity ^{(Note 18(a))}	-	0.1	-	-	-	0.1
Non-controlling interest	-	-	-	18.2	9.3	27.5
Total transactions with owners, recorded directly in equity	-	0.1	-	18.2	9.3	27.6
Balance as at December 31, 2024	\$ 405.4	\$ 8.9	\$ 8.1	\$ 135.8	\$ 8.1	\$ 566.3

See accompanying notes to these consolidated financial statements.

Western Forest Products Inc.
Consolidated Statements of Cash Flows

(Expressed in millions of Canadian dollars)

	Year ended December 31,	
	2024	2023
Cash provided by (used in):		
Operating activities		
Net loss	\$ (34.5)	\$ (70.1)
Items not involving cash:		
Amortization of plant and equipment ^(Note 6)	50.6	49.7
Amortization of timber licenses ^(Note 7)	4.1	4.0
Impairment of assets held for sale ^(Notes 5, 25)	2.8	-
Loss on disposal of property, plant and equipment ^(Notes 5, 6)	0.6	0.2
Amortization of deferred revenue ^{(Note 24(b))}	(2.0)	(2.0)
Finance costs ^(Note 27)	6.7	3.0
Income tax recovery ^(Note 15)	(17.6)	(25.0)
Change in fair value of biological assets ^(Note 8)	0.7	(0.2)
Change in reforestation obligation ^(Note 13)	(0.7)	(0.5)
Share-based compensation, including mark-to-market adjustment ^(Note 18)	0.4	(1.2)
Change in employee future benefits obligation ^(Note 22)	(1.2)	(0.9)
Export tax receivable ^(Notes 9, 21)	(1.0)	(4.3)
Foreign exchange and other	(7.3)	1.8
Income taxes received	22.5	15.4
	<u>24.1</u>	<u>(30.1)</u>
Changes in non-cash working capital items:		
Trade and other receivables	(6.8)	6.7
Inventory	(3.6)	8.8
Prepaid expenses and other assets	(0.6)	(12.1)
Accounts payable and accrued liabilities	7.0	(7.1)
	<u>(4.0)</u>	<u>(3.7)</u>
	20.1	(33.8)
Investing activities		
Additions to property, plant and equipment ^(Note 6)	(33.4)	(44.4)
Proceeds from disposal of property and equipment	1.0	2.2
Advances and loans	0.3	(1.1)
Insurance proceeds	-	4.7
Proceeds on disposition of minority interest in subsidiary	35.1	-
	<u>3.0</u>	<u>(38.6)</u>
Financing activities		
Net drawings on credit facility ^(Note 11)	2.0	84.0
Bank indebtedness	(0.9)	0.9
Equipment loan	-	0.1
Debt refinancing costs	(0.5)	-
Interest payments	(8.6)	(4.7)
Lease payments ^(Note 12)	(9.5)	(9.5)
Dividends	-	(11.9)
	<u>(17.5)</u>	<u>58.9</u>
Increase (decrease) in cash and cash equivalents	5.6	(13.5)
Cash and cash equivalents, beginning of the year	2.3	15.8
Cash and cash equivalents, December 31	<u>\$ 7.9</u>	<u>\$ 2.3</u>

Supplementary information on non-cash transactions:

The Company had no non-cash transactions in 2024 or 2023 which require disclosure.

See accompanying notes to these consolidated financial statements.

Western Forest Products Inc.

Notes to the Consolidated Financial Statements

Years ended December 31, 2024 and 2023

(Tabular amounts expressed in millions of Canadian dollars except number of shares and per share amounts)

1. Reporting entity

Western Forest Products Inc. (“Western” or the “Company”) is an integrated softwood forest products company, incorporated and domiciled in Canada, operating in the coastal region of British Columbia (“BC”) and Washington State, United States (“US”). The address of the Company’s head office is Suite 800 – 1055 West Georgia Street, Vancouver, BC, Canada. The consolidated financial statements as at and for the years ended December 31, 2024 and 2023 comprise the financial results of the Company and its subsidiaries. The Company’s primary business is the sale of lumber and logs, which includes timber harvesting, sawmilling logs into specialty lumber, value-added lumber and glue-laminated timber (“glulam”) remanufacturing, and lumber purchase and wholesaling activities. The Company is listed on the Toronto Stock Exchange (“TSX”), under the symbol WEF.

2. Basis of preparation

(a) Statement of compliance

The consolidated financial statements of the Company have been prepared in accordance with IFRS Accounting Standards as issued by the International Accounting Standards Board. Certain comparative prior year figures have been reclassified to conform to the current year’s presentation.

The consolidated financial statements were authorized for issue by the Board of Directors on February 13, 2025.

(b) Basis of measurement

The consolidated financial statements have been prepared on the historical cost basis except for the following material items in the consolidated statements of financial position:

- Biological assets are measured at fair value less costs to sell;
- Liabilities for cash-settled share-based payment transactions are measured at fair value at each reporting date;
- Derivative financial instruments are measured at fair value at each reporting date;
- The defined benefit pension liability is recognized as the net of the fair value of the plan assets, less the present value of the defined benefit obligation; and
- Reforestation obligations and lease liabilities are measured at the discounted value of expected future cash flows.

(c) Functional and presentation currency

These consolidated financial statements are presented in Canadian dollars (“CAD”) which is the Company’s functional currency. Certain of the Company’s subsidiaries have a functional currency of the US Dollar (“USD”) and are translated to CAD. All amounts are presented in millions of CAD, unless otherwise indicated.

(d) Basis of consolidation

(i) Subsidiaries

Subsidiaries are entities controlled by Western and to which it has rights to variable returns and the ability to affect those returns through its power over the entity. These consolidated financial statements include the accounts of the Company’s subsidiaries from their respective dates of acquisition or incorporation.

The principal wholly-owned subsidiaries of the Company at December 31, 2024 are Western Lumber Sales Limited which sells into the US, Western Forest Products Japan Ltd., which sells into Japan, and WFP Partnerships Ltd., which holds assets of the Company’s US operations through indirect US subsidiaries, including Western Specialty Lumber Sales US LLC, and operating companies, Western Forest Products US LLC and WFP Engineered Products LLC.

Western Forest Products Inc.

Notes to the Consolidated Financial Statements

Years ended December 31, 2024 and 2023

(Tabular amounts expressed in millions of Canadian dollars except number of shares and per share amounts)

2. Basis of preparation (continued)

(d) Basis of consolidation (continued)

(ii) Interests in equity-accounted investees

Western's interests in equity-accounted investees comprise interests in joint ventures. A joint venture is an arrangement in which Western has joint control and has rights to the net assets of the arrangement, rather than rights to all assets and obligations for all liabilities.

Interests in the joint venture are accounted for using the equity method and are recognized initially at cost, including transaction costs. Subsequent to initial recognition, the consolidated financial statements include Western's share of profit and loss and other comprehensive income of equity accounted investees, until the date on which significant influence or joint control ceases.

(iii) Transactions eliminated on consolidation

Inter-company balances and transactions including any unrealized income and expenses arising from inter-company transactions are eliminated upon consolidation. Unrealized gains arising from transactions with equity accounted investees are eliminated against the investment to the extent of Western's interest in the investee. Unrealized losses are eliminated in the same way, except to the extent that there is evidence of impairment.

(e) Foreign currency transactions

Foreign currency transactions are translated into CAD at the transaction date exchange rate. Monetary assets and liabilities denominated in foreign currencies are revalued to CAD using the exchange rate at the reporting date. Foreign currency differences arising on revaluation are recognized in net income.

(f) Foreign operations

Certain subsidiaries of the Company operate with the USD as their functional currency. On consolidation, revenues and expenses from these foreign operations are translated into CAD using the exchange rate at the transaction date, or at average rates for the period which approximate the transaction date, as applicable. Assets and liabilities are translated into CAD at exchange rates in effect at the reporting date. Resulting foreign currency translation differences are recognized in other comprehensive income ("OCI") and recorded to the translation reserve within equity. Upon the disposal of a foreign operation, the related cumulative foreign currency translation differences in the translation reserve will be recognized in net income.

Monetary receivables from a foreign operation, the settlement of which are neither planned nor likely in the foreseeable future are considered to form part of the net investment in the foreign operation. Related foreign exchange translation differences are recognized in OCI and presented in the translation reserve in equity.

(g) Use of estimates and judgements

The preparation of the consolidated financial statements in conformity with IFRS requires Management to make judgements, estimates and assumptions that affect the application of accounting policies and the reported amounts of assets, liabilities, income and expenses. Actual results may differ from these estimates. Estimates and assumptions are reviewed on an ongoing basis. Revisions to estimates are recognized prospectively.

(i) Judgements

The determination of appropriate cash generating units ("CGU") as described in Note 3(a) is a judgement made in applying an accounting policy that has a significant effect on the amounts recognized in the consolidated financial statements.

Western Forest Products Inc.

Notes to the Consolidated Financial Statements

Years ended December 31, 2024 and 2023

(Tabular amounts expressed in millions of Canadian dollars except number of shares and per share amounts)

2. Basis of preparation (continued)

(g) Use of estimates and judgements (continued)

(ii) Assumptions and estimation uncertainties

Information about the use of management estimates and judgements and estimation uncertainties that have a significant effect on the amounts recognized in the consolidated financial statements is included in the following notes:

Note 4	Measurement of net realizable value of inventories;
Note 5	Measurement of fair value less costs to sell of assets held for sale;
Note 8	Measurement of fair value less costs to sell of standing timber (biological assets);
Note 10	Measurement of recoverable amount of goodwill utilizing the present value of projected cash flows generated from the continuing use of the related CGU: key assumptions about likelihood and quantum of cash flows and discount rate used;
Note 12	Measurement of the present value of lease liabilities: key assumptions about the future lease payments and the discount rate used;
Note 13	Measurement of the present value of reforestation obligations: key assumptions on the likelihood and quantum of outflow of resources;
Note 15	Measurement of tax provisions and recoveries resulting from assessments of tax treatments and interpretations of income tax laws and regulations.
Note 18	Measurement of share-based payment transactions;
Note 21	Recognition and measurement of provisions and contingencies: key assumptions about the likelihood and quantum of outflow of resources; and
Note 22	Measurement of defined benefit obligations: key actuarial assumptions and recognition of termination benefits.

Measurement of fair values – certain accounting policies and disclosures require financial and non-financial assets and liabilities to be measured at fair value. Fair value measurements, including Level 3 fair values, are defined in an established framework with regular review of significant unobservable inputs and valuation adjustments. Management obtains third party information to measure fair values and assesses the resulting valuations to ensure they meet IFRS requirements, including the level in the fair value hierarchy in which such valuations would be classified. To the extent possible, Western uses market observable data to establish the fair value of a financial instrument. Refer to Note 28 for more details.

Fair values are categorized into different levels in a fair value hierarchy based on the inputs used in the valuation techniques as follows:

- *Level 1: quoted prices (unadjusted) in active markets for identical assets or liabilities*
- *Level 2: inputs other than quoted prices included in Level 1 that are observable for the assets or liability, either directly or indirectly*
- *Level 3: inputs for the asset or liability that are not based on observable market data*

If the inputs to measure the fair value of the asset or liability might be categorized in different levels of the fair value hierarchy, then the fair value measurement is categorized in its entirety in the same level of the hierarchy as the lowest level input that is significant to the entire measurement. Transfers between levels of the fair value hierarchy are recognized at the end of the period in which the change occurred.

Western Forest Products Inc.

Notes to the Consolidated Financial Statements

Years ended December 31, 2024 and 2023

(Tabular amounts expressed in millions of Canadian dollars except number of shares and per share amounts)

3. Material accounting policies

Material accounting policies not described elsewhere in these consolidated financial statements include:

(a) Impairment of non-financial assets

The Company reviews its non-financial assets for impairment whenever events or circumstances indicate that the carrying amount may not be recoverable. Should such an indicator exist, the non-financial asset's recoverable amount is estimated and assessed against its carrying value. The recoverable amount of CGUs to which goodwill has been allocated is estimated annually or whenever events or circumstances indicate the carrying amount may not be recoverable.

For impairment testing, assets that cannot be tested individually are grouped together into a CGU, at the lowest level for which there are separately identifiable cash inflows that are largely independent of the cash inflows from other assets or groups of assets. The recoverable amount of an asset or CGU is the greater of its value in use and its fair value less costs to sell. Value in use is based on the estimated future cash flows, discounted to their present value using a pre-tax discount rate that reflects current market assessments of time value of money and risks specific to the CGU.

Impairment losses are recognized in net income. Impairment losses in respect of CGUs are allocated first to reduce the carrying amount of goodwill (if any) assigned to the CGU, and then to reduce the carrying amounts of the other assets in the CGU on a pro-rata basis to the extent the carrying value of an asset exceeds the higher of its fair value and value in use.

Non-financial assets, other than goodwill, for which an impairment was previously recognized, are reviewed for possible reversal of the impairment at each reporting date. When an impairment loss is reversed, the increased carrying amount of the asset cannot exceed the carrying amount that would have been determined, net of amortization, had the impairment never been recognized.

An impairment loss recorded against goodwill is not reversed.

(b) Application of new and revised accounting standards

The Company has adopted *Classification of Liabilities as Current or Non-current and Non-current Liabilities with Covenants – Amendments to IAS 1*, as issued in 2020 and 2022. The amendments apply retrospectively for annual reporting periods beginning on or after January 1, 2024. They clarify certain requirements for determining whether a liability should be classified as current or non-current and require new disclosures for non-current liabilities that are subject to covenants within twelve months after the reporting period. Adoption of these changes in accounting policy and amendments had no impact on the Company's consolidated financial statements.

(c) New standards and interpretations not yet adopted

In April 2024, the IASB issued IFRS 18, *Presentation and Disclosure in Financial Statements* (IFRS 18), which replaces IAS 1, *Presentation of Financial Statements*. IFRS 18 introduces a specified structure for the income statement by requiring income and expenses to be presented into the three defined categories of operating, investing, and financing, and by specifying certain defined totals and subtotals. Where company-specific measures related to the income statement are provided, IFRS 18 requires companies to disclose explanations around these measures, which are referred to as management-defined performance measures. IFRS 18 also provides additional guidance on principles of aggregation and disaggregation which apply to the primary financial statements and the notes. IFRS 18 will not affect the recognition and measurement of items in the financial statements, nor will it affect which items are classified in other comprehensive income and how these items are classified. The standard is effective for reporting periods beginning on or after January 1, 2027 with retrospective application required. The Company is currently assessing the effect of this new standard on our financial statement presentation.

No other standards or amendments or interpretations to existing standards issued but not yet adopted are currently considered by the Company to be significant or likely to have a material impact on future financial statements.

Western Forest Products Inc.

Notes to the Consolidated Financial Statements

Years ended December 31, 2024 and 2023

(Tabular amounts expressed in millions of Canadian dollars except number of shares and per share amounts)

4. Inventory

Accounting policy

Inventory, other than supplies which are valued at specific cost, are valued at the lower of cost and net realizable value ("NRV") as described below:

- (i) Lumber by species (hemlock and balsam, Douglas fir, and yellow and western red cedar) and facility; and
- (ii) Logs by sort by end use (saw logs and pulp logs).

Inventory cost includes purchase, production or conversion costs and other costs incurred in bringing them to their existing location and condition on a product-by-product basis. Lumber inventories produced are costed at an average cost of production based on the species and facility where they were produced. Lumber inventories purchased from external sources are costed at purchase cost. NRV is the estimated selling price in the ordinary course of business, less the estimated costs of completion and selling expenses. Engineered wood products are categorized with lumber inventory.

Log inventories produced are costed at an average cost of production based on the operational area in which the logs were produced. Log inventories purchased from external sources are costed at purchase cost. NRV of logs designated for lumber processing is based on the estimated selling price of the lumber which will be produced less estimated costs of completion and selling expenses, and on market replacement cost for logs held for sale.

Logs transferred from biological assets (standing timber) are costed at fair value less costs to sell at the date of harvest.

Supporting information

	December 31, 2024			December 31, 2023		
	Gross carrying value	Provisions	Lower of cost and net realizable value	Gross carrying value	Provisions	Lower of cost and net realizable value
Logs	\$ 138.0	\$ (13.2)	\$ 124.8	\$ 146.6	\$ (20.8)	\$ 125.8
Lumber	82.8	(11.3)	71.5	86.1	(18.5)	67.6
Supplies and other	20.8	-	20.8	20.1	-	20.1
	<u>\$ 241.6</u>	<u>\$ (24.5)</u>	<u>\$ 217.1</u>	<u>\$ 252.8</u>	<u>\$ (39.3)</u>	<u>\$ 213.5</u>

The carrying amount of inventory recorded at net realizable value was \$61.9 million at December 31, 2024 (2023: \$89.3 million), with the remaining inventory recorded at cost.

For the year ended December 31, 2024, the Company recognized a decrease in the provision for write-down to net realizable value of \$14.8 million (2023: \$13.8 million).

5. Assets held for sale

Accounting policy

Assets that form a disposal group held for sale are measured at the lower of their carrying value or fair value less costs to sell and are not depreciated while classified as held for sale. Although the disposal group as a whole is measured at the lower of carrying value and fair value less costs to sell, some individual assets and liabilities within the disposal group fall outside the measurement scope of IFRS 5, *Non-current Assets Held for Sale and Discontinued Operations*, and may be assessed under other standards. Interest and other expenses and related liabilities attributable to assets classified as held for sale continue to be recognized as incurred.

Supporting information

Management intends to sell its Alberni Pacific Division ("APD"). Accordingly, the APD assets are presented as assets held for sale. Fair value, less costs to sell, is expected to equal the carrying amount of this disposal group.

Western Forest Products Inc.

Notes to the Consolidated Financial Statements

Years ended December 31, 2024 and 2023

(Tabular amounts expressed in millions of Canadian dollars except number of shares and per share amounts)

5. Assets held for sale (continued)

Supporting information (continued)

The assets held for sale comprised the following assets and liabilities:

	December 31, 2024	December 31, 2023
Supplies and other	\$ -	\$ 2.5
Property, plant and equipment	7.4	8.3
Assets held for sale	<u>\$ 7.4</u>	<u>\$ 10.8</u>
Lease liabilities directly associated with assets held for sale	<u>\$ 0.3</u>	<u>\$ 0.3</u>

In February, 2024, the Company sold a parcel of land previously classified as held for sale and recognized a gain of \$0.4 million recorded in other income (expense).

On April 16, 2024, the Company announced the indefinite curtailment of its APD site. In 2024, the Company recorded related severance of \$2.2 million (2023: \$5.7 million), impairment charges of \$2.8 million in respect of supplies and other inventories, property, plant and equipment, and incremental curtailment costs of \$0.9 million in operating restructuring items.

6. Property, plant and equipment

Accounting policy

Property, plant and equipment are measured at cost, less accumulated depreciation and any accumulated impairment losses. Cost includes all expenditures directly attributable to bringing the asset to the location and condition necessary for its intended use. When major individual components of an item of property, plant or equipment have different useful lives, they are accounted for as separate items. Subsequent expenditures on an item of property, plant and equipment are capitalized only when it is probable that future economic benefits associated with the item will flow to the Company and the cost can be measured reliably.

Maintenance costs are recorded as expenses as incurred, except for programs that extend the useful life of an asset or increase its value, for which costs are capitalized.

Depreciation is provided on a straight-line basis over the estimated useful lives of the related asset and after considering salvage values. Useful lives range from:

- Buildings and equipment 5 - 20 years
- Long-term logging roads and bridges 9 - 20 years

Certain roads are amortized on the basis of timber cut relative to available timber. Logging roads with an economic life of one year or less are expensed to cost of goods sold.

Depreciation methods, useful lives and residual values are reviewed annually.

For Right of use assets ("ROU asset"), see Note 12.

Western Forest Products Inc.

Notes to the Consolidated Financial Statements

Years ended December 31, 2024 and 2023

(Tabular amounts expressed in millions of Canadian dollars except number of shares and per share amounts)

6. Property, plant and equipment (continued)

Supporting information

	Land	Buildings and equipment	Projects	Logging roads	Total, excluding right of use assets	Right of use assets	Total
Cost							
Balance as at December 31, 2022	\$ 59.5	\$ 483.5	\$ 16.2	\$ 245.5	\$ 804.7	\$ 43.6	\$ 848.3
Additions	-	0.1	36.4	8.1	44.6	5.9	50.5
Reclassification to asset held for sale	(2.1)	(17.0)	-	-	(19.1)	(0.5)	(19.6)
Disposals	(0.1)	(5.3)	(0.7)	-	(6.1)	(2.9)	(9.0)
Transfers	-	25.5	(27.2)	1.7	-	-	-
Effect of movements in exchange rates	(0.3)	(1.3)	(0.1)	-	(1.7)	(0.2)	(1.9)
Balance as at December 31, 2023	57.0	485.5	24.6	255.3	822.4	45.9	868.3
Additions	-	0.5	26.8	6.1	33.4	7.9	41.3
Reclassification from asset held for sale	-	0.7	-	-	0.7	-	0.7
Disposals	-	(12.8)	-	(0.1)	(12.9)	(3.9)	(16.8)
Transfers	-	30.3	(33.5)	3.2	-	-	-
Effect of movements in exchange rates	1.2	5.4	0.2	-	6.8	0.8	7.6
Balance as at December 31, 2024	\$ 58.2	\$ 509.6	\$ 18.1	\$ 264.5	\$ 850.4	\$ 50.7	\$ 901.1
Accumulated amortization							
Balance as at December 31, 2022		\$ 250.8		212.1	462.9	20.7	483.6
Amortization		31.0		10.2	41.2	8.5	49.7
Reclassification to asset held for sale		(11.1)		-	(11.1)	(0.2)	(11.3)
Disposals		(5.2)		-	(5.2)	(2.5)	(7.7)
Effect of movements in exchange rates		(0.3)		-	(0.3)	(0.1)	(0.4)
Balance as at December 31, 2023		265.2		222.3	487.5	26.4	513.9
Amortization		32.7		9.7	42.4	8.2	50.6
Reclassification from asset held for sale		0.4		-	0.4	-	0.4
Disposals		(11.7)		-	(11.7)	(3.7)	(15.4)
Effect of movements in exchange rates		1.5		-	1.5	0.5	2.0
Balance as at December 31, 2024		\$ 288.1		\$ 232.0	\$ 520.1	\$ 31.4	\$ 551.5
Carrying amounts							
As at December 31, 2023	\$ 57.0	\$ 220.3	\$ 24.6	\$ 33.0	\$ 334.9	\$ 19.5	\$ 354.4
As at December 31, 2024	\$ 58.2	\$ 221.5	\$ 18.1	\$ 32.5	\$ 330.3	\$ 19.3	\$ 349.6

The Company did not utilize any cash deposits during the year ended December 31, 2024 (2023: \$0.2 million as equipment was delivered).

Western Forest Products Inc.

Notes to the Consolidated Financial Statements

Years ended December 31, 2024 and 2023

(Tabular amounts expressed in millions of Canadian dollars except number of shares and per share amounts)

7. Timber licences

Accounting policy

Crown timber tenures are renewable contractual arrangements with the BC provincial government (“the Province”) whereby the Company gains the right to harvest timber. The Company’s timber licences are accounted for as acquired finite lived timber licences and accordingly are valued at acquisition cost less accumulated amortization and any accumulated impairment losses. Amortization is recognized on a straight-line basis over 40 years. Amortization methods, useful lives and residual values are reviewed, and adjusted if appropriate, at each reporting date.

Renewal costs associated with timber tenures are expensed as incurred.

	December 31, 2024	December 31, 2023
Cost		
Balance at beginning of year and December 31	\$ 169.4	\$ 169.4
Accumulated amortization		
Balance at beginning of year	\$ 77.1	\$ 73.1
Amortization	4.1	4.0
Balance at December 31	\$ 81.2	\$ 77.1
Carrying amount at December 31	\$ 88.2	\$ 92.3

8. Biological assets

Accounting policy

Under IAS 41, *Agriculture*, the Company’s private timberlands, managed for timber production, are classified as a growing forest, with the standing timber on this privately held forest land recorded and characterized as a biological asset. Accordingly, at each reporting date, the biological asset is valued at its fair value less costs to sell with any change therein, including the impact of growth and harvest, recognized in net income. Land underlying the standing timber is measured at cost and included in property, plant and equipment. Long-term roads and bridges on the land underlying the standing timber are recorded at cost less accumulated depreciation and included in property, plant and equipment.

The Company performs a comprehensive valuation every three years and assesses key assumptions in intervening years for material changes. A comprehensive valuation was performed in 2022.

Supporting information

(a) Reconciliation of carrying amount

	Years ended December 31,	
	2024	2023
Carrying value at beginning of year	\$ 49.3	\$ 49.1
Change in fair value due to growth and pricing	0.3	0.3
Harvested timber transferred to inventory	(1.0)	(0.1)
Carrying value at December 31	\$ 48.6	\$ 49.3

At December 31, 2024, private timberlands comprised an area of approximately 22,693 hectares (2023: 22,693 hectares) of land owned by the Company. Standing timber on private timberlands range from newly planted areas to mature forest available for harvest.

During the year ended December 31, 2024, the Company harvested and scaled 21,979 cubic metres (“m³”) of logs from its private timberlands, which had a fair value less costs to sell of \$135 per m³ at the date of harvest (2023: 33,961 m³ and \$131 per m³, respectively).

Western Forest Products Inc.

Notes to the Consolidated Financial Statements

Years ended December 31, 2024 and 2023

(Tabular amounts expressed in millions of Canadian dollars except number of shares and per share amounts)

8. Biological assets (continued)

Supporting information (continued)

(b) Measurement of fair values

The change in fair value resulting from price and growth is reflected in cost of goods sold. The fair value measurements for the Company's standing timber of \$48.6 million has been categorized as Level 3 fair value based on the inputs to the valuation technique used as discussed in the following table.

Valuation technique	Significant unobservable inputs	Inter-relationship between key unobservable inputs and fair value measurement
Discounted cash flows: the valuation model considers the present value of the net cash flows expected to be generated by the individual private timberlands utilizing a harvest optimization approach. The cash flow projections include specific estimates for 25 years. The expected net cash flows are discounted using a risk-adjusted discount rate.	<ul style="list-style-type: none"> Estimated future log prices per m³ (\$95 - \$298, weighted average \$136). Estimated harvest costs per m³ (\$89 - \$110, weighted average \$95). Estimated harvest annual volume (100,000 - 200,000 m³, weighted average 116,000 m³). Risk-adjusted discount rate (weighted average 7.50%). 	<p>The estimated fair value would increase (decrease) if:</p> <ul style="list-style-type: none"> The estimated log prices per m³ were higher (lower); The estimated harvest costs per m³ were lower (higher); The estimated harvest volumes were higher (lower); or The risk-adjusted discount rates were lower (higher).

(c) Risk management strategies related to biological assets

Western is exposed to the following risks relating to its private timberlands:

- The Company is exposed to risks arising from fluctuations in log prices and sales volumes. When possible, Western aligns its harvest volumes to market supply and demand and performs regular industry trend analyses for projected harvest volumes and pricing in order to manage this risk.
- The standing timber is exposed to risk of damage as a result of severe weather conditions, forest fires, insect infestation and disease. Western has processes and procedures in place to monitor and mitigate these risks, including fire management strategies and regular inspection for pest infestation.

9. Other assets

	December 31, 2024	December 31, 2023
Export tax receivable and related interest ^(Note 21)	\$ 82.7	\$ 70.8
Investments and advances	4.0	3.1
Note receivable	2.6	2.6
Long-term loans	0.7	0.9
Other	0.3	0.3
	<u>90.3</u>	<u>77.7</u>
Current portion	2.9	0.3
	<u>\$ 87.4</u>	<u>\$ 77.4</u>

10. Goodwill

Accounting policy

The Company measures goodwill in business acquisitions at the acquisition date as the fair value of the consideration transferred including any non-controlling interest less the fair value of the identifiable assets acquired and liabilities assumed, all measured as of the acquisition date. When the excess is negative, a gain is recognized immediately in net income. Goodwill is measured at cost less accumulated impairment losses and is tested annually for impairment as described in Note 3 (a).

Western Forest Products Inc.

Notes to the Consolidated Financial Statements

Years ended December 31, 2024 and 2023

(Tabular amounts expressed in millions of Canadian dollars except number of shares and per share amounts)

10. Goodwill (continued)

Supporting information

For the purpose of impairment testing at December 31, 2024, goodwill is attributable to the Company's glulam manufacturing CGU. The recoverable amount for the goodwill impairment assessment was based on the CGU's value in use determined by discounting the future cash flows generated from its continuing use. The cashflows were projected based on past experience, actual operating results and the annual business plan.

The values assigned to key assumptions represent management's assessment of future trends in the forest industry and are based on both external sources and historical data. A post-tax discount rate of 13% (2023: 13%) was applied in determining the recoverable amount of the CGU.

The recoverable amount as at December 31, 2024 was determined to be higher than the related carrying value, with no impairment of goodwill required.

	December 31, 2024	December 31, 2023
Cost		
Opening balance	\$ 6.9	\$ 7.0
Effective of movement in exchange rates	0.6	(0.1)
Balance at December 31	<u>\$ 7.5</u>	<u>\$ 6.9</u>

11. Long-term debt

Accounting policy

Long-term debt is recognized initially at fair value, net of transaction costs incurred. Long-term debt is subsequently carried at amortized cost; any difference between the proceeds and the redemption value is recognized in net income over the term of the long-term debt using the effective interest method.

Transaction costs are deferred and amortized straight line to finance costs over the term of the long-term debt.

Supporting information

	December 31, 2024	December 31, 2023
Available Credit Facility	\$ 250.0	\$ 250.0
Net drawings on Credit Facility	(86.0)	(84.0)
Outstanding letters of credit included in line utilization	(27.3)	(19.6)
Unused portion of Credit Facility	<u>\$ 136.7</u>	<u>\$ 146.4</u>
Credit Facility drawings	\$ 86.0	\$ 84.0
Equipment loan	-	0.1
	86.0	84.1
Less transaction costs	(0.5)	(0.3)
Long-term debt at December 31	<u>\$ 85.5</u>	<u>\$ 83.8</u>

The Company's syndicated Credit Facility (the "Credit Facility") provides for a maximum borrowing amount of \$250 million, with advances in excess of \$215 million subject to a leverage metric. On July 26, 2024, the maturity date of the Credit Facility was extended to July 21, 2026 from July 21, 2025, and certain financial covenants were amended.

The Credit Facility is available in CAD by way of Prime Rate Advances, Canadian Overnight Repo Rate Average Advances or Letters of Credit and in USD by way of Secured Overnight Financing Rate US Base Rate Advances, US Prime Rate Advances, or Letters of Credit. Interest on the Credit Facility is indexed to benchmark rates and varies depending on the nature of each draw and certain financial benchmarks.

Western Forest Products Inc.

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(Tabular amounts expressed in millions of Canadian dollars except number of shares and per share amounts)

11. Long-term debt (continued)

Supporting information (continued)

The Credit Facility is secured by a general security agreement, excluding certain specified properties and their related assets, and is subject to certain financial covenants, including a maximum debt to total capitalization ratio.

The Company was in compliance with its financial covenants as at December 31, 2024 and expects to comply for at least twelve months thereafter. Accordingly, the loan is classified a non-current at December 31, 2024.

12. Lease liabilities

Accounting policy

At inception of a contract, the Company assesses whether a contract is, or contains, a lease. A contract is or contains a lease if the contract conveys the right to control the use of an identified asset for a period of time in exchange for consideration.

As a lessee, the Company recognizes a ROU asset and lease liability at the lease commencement date. At this date, the ROU asset is measured at cost. Cost includes the initial amount of the lease liability, adjusted for lease payments made before this date as well as any initial direct costs incurred. Cost also includes an estimate of costs to be incurred by the lessee in dismantling and removing the underlying asset and restoring the site on which it is located, less any lease incentives received. Any leasehold improvements are added to the related ROU asset.

The ROU asset is subsequently amortized using the straight-line method from the commencement date to the earlier of the end of the lease term or the useful life of the underlying asset. The ROU asset is reduced by any impairment losses, if any, and adjusted for remeasurements of the lease liability. The Company presents ROU assets in property, plant and equipment in its consolidated statements of financial position (see Note 6).

The lease liability is initially measured at the present value of the lease payments discounted using the interest rate implicit in the lease if readily determinable, or the Company's incremental borrowing rate. The lease payments include fixed payments, variable payments that depend on an index or rate, residual value guarantees, and the exercise price under a purchase option that the Company is reasonably certain to exercise.

The lease liability is measured at amortized cost using the effective interest method. It is remeasured when there is a change in the expected future lease payments as in the case of a revision to the lease term. Remeasurements to the lease liability are reflected in the ROU asset to the extent that the carrying value of the ROU asset exceeds the adjustment, and to other income (expense) in net income otherwise.

The Company elected not to recognize ROU assets and corresponding lease liabilities for contracts with a term of one year or less and low value leases, including office fixtures and information technology equipment. The Company recognizes these payments as an expense on a straight-line basis over the term of the agreement.

Western Forest Products Inc.

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12. Lease liabilities (continued)

Supporting information

Changes in the lease liabilities are as follows:

	December 31, 2024	December 31, 2023
Lease liabilities, beginning of year	\$ 19.9	\$ 23.2
New leases and modifications	7.9	6.0
Terminations	(0.2)	(0.7)
Finance costs ^(Note 27)	1.1	1.3
Lease payments	(9.5)	(9.5)
Reclassification to liabilities directly associated with assets held for sale ^(Note 5)	-	(0.3)
Effect of movements in exchange rates	0.3	(0.1)
Lease liabilities at December 31	<u>\$ 19.5</u>	<u>\$ 19.9</u>
Current	\$ 6.7	\$ 6.9
Long term	<u>12.8</u>	<u>13.0</u>
	<u>\$ 19.5</u>	<u>\$ 19.9</u>

The weighted average incremental borrowing rate used to establish lease obligations in 2024 was approximately 8.28% (2023: 7.75%).

In addition to the above, the Company recognized an expense of \$3.3 million during the year ended December 31, 2024 (2023: \$3.1 million), relating to short term and low value lease payments.

13. Reforestation obligation

Accounting policy

The Company's provision for reforestation results from a legal obligation to reforest timber harvested from Crown land and arises as timber is harvested. Accordingly, the Company records the fair value of the costs of reforestation in the period in which the associated timber is harvested. The provision is measured at the expected value of future cash flows, discounted to their present value and determined according to the probability of alternative estimates of cash flows. Cash flows reflect the risks specific to the provision. As such, the discount rate reflects the current risk-free rate given that risks are incorporated into the future cash flow estimates and reflects current market assessments of the time value of money. Adjustments are made to the provision each reporting period for changes in the estimated timing or amount of cash flows, changes in the discount rate and the unwinding of the discount.

In periods subsequent to the initial measurement, changes in the liability resulting from revisions to estimated future costs are recognized in cost of goods sold in net income as they occur and revisions resulting from the passage of time, or accretion cost, are included in finance costs.

Reforestation on private timberlands is expensed as incurred.

Supporting information

Changes in the reforestation obligation were as follows:

	Years ended December 31,	
	2024	2023
Reforestation obligation, beginning of year	\$ 22.1	\$ 22.1
Provision charged	6.4	7.3
Expenditures	(7.1)	(7.8)
Unwind of discount ^(Note 27)	0.5	0.5
	<u>21.9</u>	<u>22.1</u>
Less current portion	7.3	7.9
Long-term reforestation obligation, end of year	<u>\$ 14.6</u>	<u>\$ 14.2</u>

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13. Reforestation obligation (continued)

Supporting information (continued)

The reforestation expenditures are expected to occur over the next one to ten years and have been discounted at risk-free rates of 2.90% to 3.23% (2023: 3.10% to 4.73%). The total undiscounted amount of the estimated future expenditures required to settle the reforestation obligation at December 31, 2024 is \$24.1 million (2023: \$24.5 million).

14. Other liabilities

	Current	Non-current	Total
As at December 31, 2024			
Defined benefit employee future benefits obligation ^(Note 22)	\$ -	\$ 4.9	\$ 4.9
Defined contribution employee future benefits obligation	-	2.7	2.7
Environmental provision	0.1	2.4	2.5
Deferred share unit plan liabilities ^{(Note 18(b))}	1.0	-	1.0
Restricted share unit plan liabilities ^{(Note 18(d))}	0.6	1.4	2.0
Other	-	0.4	0.4
	<u>\$ 1.7</u>	<u>\$ 11.8</u>	<u>\$ 13.5</u>
As at December 31, 2023			
Defined benefit employee future benefits obligation ^(Note 22)	\$ -	\$ 4.7	\$ 4.7
Defined contribution employee future benefits obligation	-	2.1	2.1
Environmental provision	0.1	2.7	2.8
Deferred share unit plan liabilities ^{(Note 18(b))}	1.8	-	1.8
Performance share unit plan liabilities ^{(Note 18(c))}	1.4	-	1.4
Restricted share unit plan liabilities ^{(Note 18(d))}	0.8	1.2	2.0
Other	-	0.7	0.7
	<u>\$ 4.1</u>	<u>\$ 11.4</u>	<u>\$ 15.5</u>

The current portion of other liabilities is recognized in accounts payable and accrued liabilities in the consolidated statements of financial position.

15. Income taxes

Accounting policy

Income tax expense comprises current and deferred income taxes. Current and deferred income taxes are recognized in net income except to the extent that they relate to items recognized directly in equity or in OCI.

Current and deferred income tax assets and liabilities are offset if there is a legally enforceable right to offset current tax liabilities and assets, and they relate to income taxes levied by the same tax authority on the same taxable entity, or on different taxable entities. The intention is to settle current tax liabilities and assets on a net basis or tax assets and liabilities will be realized simultaneously.

(a) Current income tax

Current income tax is the expected tax payable or receivable on the taxable income or loss for the year, using tax rates enacted or substantively enacted at the reporting date, and any adjustment to income tax in respect of previous years.

(b) Deferred income tax

Deferred income tax is recognized in respect of temporary differences between the carrying amounts of assets and liabilities for accounting purposes and the amounts used for taxation purposes. Deferred income tax is not recognized if it arises on initial recognition of an asset or liability in a transaction, other than a business combination that at the time of the transaction affects neither accounting profit nor taxable profit.

Deferred income tax assets are recognized for unused tax losses, unused tax credits and deductible temporary differences to the extent that it is probable that future taxable profits will be generated against which they can be applied. Deferred income tax assets are reviewed at each reporting date and are recognized to the extent that it is probable that the related tax benefit will be realized.

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15. Income taxes (continued)

Accounting policy (continued)

(b) Deferred income tax (continued)

Unrecognized deferred income tax assets are reassessed at each reporting date and recognized to the extent that it is probable that future taxable profits will be available against which they can be applied.

Deferred income tax is measured at the rates that are expected to be applied to temporary differences when they reverse, using rates enacted or substantively enacted at the reporting date.

Supporting information

	Years ended December 31,	
	2024	2023
Income tax recovery		
Current	\$ (5.8)	\$ (21.5)
Deferred	(11.8)	(3.5)
	<u>\$ (17.6)</u>	<u>\$ (25.0)</u>

Income tax recovery differs from the amount that would be computed by applying the Company's combined Federal and Provincial statutory rate as follows:

	Years ended December 31,	
	2024	2023
Income tax recovery at the statutory rate of 27.0% (2023: 27.0%)	\$ (14.1)	\$ (25.7)
Difference in tax rates	0.8	0.4
Realization of previously unrecognized valuation allowance	(6.1)	(0.1)
Other permanent differences	1.5	0.9
Other	0.3	(0.5)
Total tax recovery at effective rate of 33.8% (2023: 26.3%)	<u>\$ (17.6)</u>	<u>\$ (25.0)</u>

The components of recognized deferred income tax assets and liabilities are as follows:

	Opening balance	Recognized in income tax recovery (expense)	Recognized in retained earnings through other comprehensive loss (income)	Recognized directly to retained earnings (Note 17)	Ending balance
For the year ended December 31, 2024					
Deferred income tax assets					
Tax loss carry-forwards	\$ 2.4	\$ 9.8	\$ -	\$ (7.6)	\$ 4.6
Employee future benefits obligation	1.2	(0.3)	0.3	-	1.2
Provisions and other	8.0	(3.2)	-	-	4.8
	<u>11.6</u>	<u>6.3</u>	<u>0.3</u>	<u>(7.6)</u>	<u>10.6</u>
Deferred income tax liabilities					
Intangible assets	(23.9)	2.3	-	-	(21.6)
Property, plant and equipment	(49.1)	3.2	-	-	(45.9)
	<u>(73.0)</u>	<u>5.5</u>	<u>-</u>	<u>-</u>	<u>(67.5)</u>
	<u>\$ (61.4)</u>	<u>\$ 11.8</u>	<u>\$ 0.3</u>	<u>\$ (7.6)</u>	<u>\$ (56.9)</u>
For the year ended December 31, 2023					
Deferred income tax assets					
Tax loss carry-forwards	\$ 1.6	\$ 0.8	\$ -	\$ -	\$ 2.4
Employee future benefits obligation	1.4	(0.3)	0.1	-	1.2
Provisions and other	9.6	(1.6)	-	-	8.0
	<u>12.6</u>	<u>(1.1)</u>	<u>0.1</u>	<u>-</u>	<u>11.6</u>
Deferred income tax liabilities					
Intangible assets	(24.9)	1.0	-	-	(23.9)
Property, plant and equipment	(52.7)	3.6	-	-	(49.1)
	<u>(77.6)</u>	<u>4.6</u>	<u>-</u>	<u>-</u>	<u>(73.0)</u>
	<u>\$ (65.0)</u>	<u>\$ 3.5</u>	<u>\$ 0.1</u>	<u>\$ -</u>	<u>\$ (61.4)</u>

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15. Income taxes (continued)

Supporting information (continued)

As recorded in the consolidated statements of financial position as follows:

	December 31, 2024	December 31, 2023
Deferred income tax assets	\$ 0.1	\$ 0.2
Deferred income tax liabilities	(57.0)	(61.6)
	<u>\$ (56.9)</u>	<u>\$ (61.4)</u>

The Company has recognized deferred income tax assets in relation to unused tax losses that are available to carry forward against future taxable income. At December 31, 2024, the Company and its subsidiaries have unused non-capital tax losses carried forward totalling \$18.5 million in the US (2023: \$7.0 million) and \$2.5 million in Canada (2023: \$3.4 million), which can be used to reduce taxable income. The US non-capital tax losses can be carried forward indefinitely, and the Canadian non-capital loss carry forwards expire in 2041. The Company has unused capital losses carried forward of approximately \$0.1 million (2023: \$46.8 million) available to be utilized against future capital gains indefinitely.

Deferred income tax assets have not been recognized in respect of the following loss carry-forwards and other deductible temporary differences:

	December 31, 2024	December 31, 2023
Temporary deductible differences	\$ 32.1	\$ 31.4
Capital loss carry-forwards	0.1	46.8
	<u>\$ 32.2</u>	<u>\$ 78.2</u>

16. Share capital

Accounting policy

The Company's authorized capital consists of an unlimited number of common shares and preferred shares. Incremental costs directly attributable to the issuance of shares and share options are recognized as a deduction from equity, net of any tax effects.

Supporting information

The Company has no outstanding preferred shares. The common shares entitle shareholders to one vote per share. Issued and outstanding common shares are as follows:

	Number of common shares	Amount
Balance as at December 31, 2022	316,742,746	\$ 405.4
Exercise of stock options	2,811	-
Balance as at December 31, 2023	316,745,557	405.4
Exercise of stock options	-	-
Balance as at December 31, 2024	<u>316,745,557</u>	<u>\$ 405.4</u>

On August 3, 2023, the Western renewed its Normal Course Issuer Bid ("NCIB") effective August 11, 2023, permitting the purchase and cancellation of up to 15,837,277 of the Company's common shares, representing 5% of the Company's common shares outstanding as of August 3, 2023. The NCIB expired August 10, 2024 and was not renewed.

No shares were repurchased under the NCIB in 2024 or 2023.

No stock options were exercised for the year ended December 31, 2024 (2023: 400,000 stock options exercised with 2,811 common shares issued on a cashless basis resulting in a \$0.4 million charge against retained earnings).

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17. Non-controlling interest

On March 27, 2024, the Company completed the sale of a 34% ownership interest in its newly formed La-kwa sa muqw Forestry Limited Partnership (“LFLP”) to four Vancouver Island First Nations: K’ómoks First Nation, Tlowitsis First Nation, We Wai Kai First Nation, and Wei Wai Kum First Nation, collectively referred to as the Nations, for gross proceeds of \$35.9 million. The LFLP is comprised of certain assets and liabilities of the Company’s former Mid-Island Forest Operation, including TFL 64, which was created through the subdivision of Block 2 of TFL 39. This is considered a transaction with owners in their capacity as owners, and because it did not result in a loss of control, the gain on disposal of \$25.8 million and related deferred tax expense of \$7.6 million was recognized directly to retained earnings.

18. Share-based compensation plans

Accounting policy

Stock options

The Company has an incentive stock option plan (the “Option Plan”) for eligible directors, officers and employees, accounting for these plans using the fair value method. The grant-date fair value of options is recognized as compensation expense over the vesting period, with a corresponding increase in contributed surplus. Cash consideration received when an option is exercised is credited to share capital together with the related compensation expense previously recognized in contributed surplus.

Determining the fair value of share-based compensation awards at the grant date requires judgement. The fair value of the options is determined using the Hull-White option pricing model which considers, as of the grant date, the exercise price, the expected life of the options, the current price of the underlying stock and its expected volatility, expected dividends on the shares, and the risk-free interest rate over the expected life of the option. The Company bases its estimates of volatility on historical share prices of the Company itself as well as those of comparable companies with longer trading histories.

Share units

The Company has a Deferred Share Unit (“DSU”) Plan for non-executive directors, Performance Share Unit (“PSU”) Plan for designated officers and certain other eligible employees and Restricted Share Unit (“RSU”) plan for officers and eligible employees. The Company uses the fair value method of accounting for obligations under these Plans, which are cash-settled.

Compensation expense is recorded for DSUs and RSUs over the vesting period based on the fair value at the date of the grant. Compensation expense is recorded for PSUs over a three-year performance period, based on the fair value of the PSUs at the date of the grant.

The liabilities under the Plans are re-measured at fair value at each reporting date and at settlement date. For the PSU Plan, this includes re-measurement as the Company’s performance tracks against the performance vesting targets. Any changes in the fair value of the liabilities are recognized in cost of goods sold and selling and administration expense.

(a) Stock-option plan

The Option Plan permits the granting of options to eligible participants to purchase up to an aggregate of 30,000,000 common shares, of which 9,565,475 remain available for future issuance. Each option is exercisable, subject to vesting terms of 20% per year and immediately upon a change in control of the Company, into one common share, subject to adjustments, at a price of not less than the closing price of the common shares on the TSX on the day immediately preceding the grant date. Options are exercisable only when the share price exceeds \$0.70 for a period of 60 consecutive days on a volume weighted average price basis. Options granted under the Option Plan expire a maximum of ten years from the date of the grant.

No options were granted under the plan in 2024 or 2023.

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18. Share-based compensation plans (continued)

Supporting information

(a) Stock-option plan (continued)

The following table summarizes the change in options outstanding:

	Year ended December 31, 2024		Year ended December 31, 2023	
	Number of options	Weighted average exercise price	Number of options	Weighted average exercise price
Outstanding at beginning of year	11,486,679	\$ 1.79	15,133,457	\$ 1.72
Exercised	-	-	(400,000)	1.27
Expired	(1,248,000)	2.54	(1,000,000)	1.27
Forfeited	-	-	(2,246,778)	1.64
Outstanding at December 31	<u>10,238,679</u>	<u>\$ 1.70</u>	<u>11,486,679</u>	<u>\$ 1.79</u>

Details of options outstanding under the Option Plan as at December 31, 2024 were as follows:

Exercise Price	Number outstanding Dec. 31, 2024	Weighted average remaining option life (years)	Weighted average exercise price	Number exercisable Dec. 31, 2024	Weighted average exercise price
\$1.05 – 1.05	3,790,382	5.2	\$ 1.05	3,032,306	\$ 1.05
\$1.47 – 1.97	3,333,906	3.8	1.88	3,033,906	1.92
\$2.09 – 2.74	3,114,391	1.7	2.31	3,114,391	2.31
	<u>10,238,679</u>	<u>3.7</u>	<u>\$ 1.70</u>	<u>9,180,603</u>	<u>\$ 1.76</u>

During 2024, the Company recorded a \$0.1 million equity-based compensation expense for these options (2023: negligible expense), with a corresponding change to contributed surplus.

(b) Deferred share unit plan

The Company has a DSU Plan for equity-based fees to non-executive directors who receive a portion of their fees in DSUs and may elect to receive a portion of their cash fees in the form of DSUs. The number of DSUs allotted is determined by dividing the dollar portion of the quarterly fees a director elects to receive in DSUs by the share price value on the fifth day following each quarter end. DSU holders are entitled to DSU dividends, equivalent to the dividend they would have received had they held their DSUs as common shares. For dividends, the number of DSUs allotted is determined by dividing the total dollar value of the dividend each DSU holder would have received, by the closing share price on the dividend payment date.

Prior to January 1, 2015, DSUs were also granted to designated executive officers.

	Year ended December 31, 2024		Year ended December 31, 2023	
	Number of DSUs	Weighted average unit value ¹	Number of DSUs	Weighted average unit value ¹
Outstanding at beginning of year	2,567,991	\$ 1.21	2,067,371	\$ 1.45
Granted ¹	1,411,235	0.51	886,800	0.90
Redeemed	(1,599,389)	1.36	(386,180)	1.77
Outstanding at December 31	<u>2,379,837</u>	<u>\$ 0.70</u>	<u>2,567,991</u>	<u>\$ 1.21</u>

¹Fair value at the date of the grants. Grants included notional dividends.

During 2024, the Company recorded compensation recovery for these DSUs of \$0.7 million (2023: \$1.0 million), with a corresponding decrease to accounts payable and accrued liabilities (Note 14).

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18. Share-based compensation plans (continued)

Supporting information (continued)

(c) Performance share unit plan

The Company has established a PSU Plan for designated officers and certain other eligible employees of the Company. Under the terms of the PSU Plan, participants are granted a number of PSUs based on a target award divided by the value of the Company's common shares at the effective date of grant. All PSU holders are entitled to PSU dividends, equivalent to the dividend they would have received had they held their PSUs as common shares.

Performance targets are set by the Company's Board of Directors. The number of PSUs which will ultimately vest will be the original number of PSUs granted plus PSUs equal to the value of accrued notional dividends over the performance period. For dividends, the number of PSUs allotted is determined by dividing the total dollar value of the dividend each PSU holder would have received, by the closing share price on the trading day immediately after the dividend date of record. The redemption value of vested PSUs will range from 0% to 200% based on return on capital employed over a three-year performance period.

	Year ended December 31, 2024		Year ended December 31, 2023	
	Number of PSUs	Weighted average unit value ¹	Number of PSUs	Weighted average unit value ¹
Outstanding at beginning of year	3,574,946	\$ 1.55	3,591,951	\$ 1.46
Granted ¹	3,621,608	0.64	1,638,257	1.29
Redeemed	(1,130,621)	1.54	(1,655,262)	1.08
Forfeited	-	-	-	-
Outstanding at December 31	<u>6,065,933</u>	<u>\$ 1.01</u>	<u>3,574,946</u>	<u>\$ 1.55</u>

¹Fair value at the date of the grants. Grants included notional dividends.

During 2024, the Company recorded a negligible compensation expense for these PSUs (2023: \$0.7 million recovery), with a corresponding change to accounts payable and accrued liabilities (Note 14).

(d) Restricted share unit plan

In 2020, the Company established an RSU Plan for designated officers and employees of the Company. Under the terms of the RSU Plan, participants are granted a number of RSUs based on a target award divided by the value of the Company's common shares at the effective date of grant. All RSU holders are entitled to RSU dividends equivalent to the dividend they would have received if they held their RSUs as common shares.

The number of RSUs which will ultimately vest will be the original number of RSUs granted plus RSUs equal to the value of accrued notional dividends over the three-year vesting period. For dividends, the number of RSUs allotted is determined by dividing the total dollar value of the dividend each RSU holder would have received, by the closing share price on the trading day immediately after the dividend date of record.

	Year ended December 31, 2024		Year ended December 31, 2023	
	Number of RSUs	Weighted average unit value ¹	Number of RSUs	Weighted average unit value ¹
Outstanding at beginning of year	4,665,771	\$ 1.54	3,438,775	\$ 1.61
Granted ¹	8,464,859	0.65	1,568,231	1.28
Redeemed	(1,678,940)	1.59	(341,235)	1.08
Forfeited	-	-	-	-
Outstanding at December 31	<u>11,451,690</u>	<u>\$ 0.87</u>	<u>4,665,771</u>	<u>\$ 1.54</u>

¹Fair value at the date of the grants. Grants included notional dividends.

During 2024, the Company recorded compensation expense for these RSUs of \$1.0 million (2023: \$0.5 million) with a corresponding increase to accounts payable and accrued liabilities and other liabilities (Note 14).

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19. Loss per share

Loss per share is calculated utilizing the treasury stock method for determining the dilutive effect of options issued. The reconciliation of the numerator and denominator is determined as follows:

	Year ended December 31, 2024			Year ended December 31, 2023		
	Net loss attributable to equity shareholders	Weighted average number of shares	Per share	Net loss attributable to equity shareholders	Weighted average number of shares	Per share
Issued shares, beginning of year		316,745,557			316,742,746	
Effect of shares:						
Issued		-			2,441	
Repurchased		-			-	
Basic loss per share	\$ (30.4)	316,745,557	\$ (0.10)	\$ (68.5)	316,745,187	\$ (0.22)
Effect of dilutive securities:						
Stock options		-			-	
Diluted loss per share	\$ (30.4)	316,745,557	\$ (0.10)	\$ (68.5)	316,745,187	\$ (0.22)

20. Capital management

The Company's strategy for managing capital is to maintain a capital position that provides financial flexibility, maintains investor, creditor and market confidence and sustains future development of the business. The Company manages its capital structure through robust planning, budgeting and forecasting processes and ongoing management of operations and capital expenditures.

Changes to the capital structure may be made as strategic opportunities arise. To maintain or adjust its capital structure, the Company may buy back shares, issue new shares, source new debt, or sell assets, including through the establishment of limited partnerships. The Company has internal controls to ensure changes to the capital structure are properly reviewed and approved.

In support of the Company's key strategic priorities, including optimizing our business platform and growing our value-added, specialty and engineered wood products business, the Company continues to make investments to support accelerating the transition to higher value products. The Company incurs annual expenditures for the maintenance of capital assets, as well as to fund roads and bridges to access timber stands for harvesting purposes. The Company also evaluates various strategic and discretionary capital expenditures against internal return hurdles, with the objective of maximizing long-term shareholder value.

From time to time, the Company purchases its own common shares on the market under a defined NCIB, and depending upon market prices. All repurchased common shares are cancelled. The NCIB was not renewed after its expiry on August 10, 2024.

Payment of dividends on the Company's common shares is at the discretion of the Board of Directors and depends on the Company's financial condition, capital expenditure funding requirements, credit agreement financial covenants and other factors. The quarterly dividend was suspended in late 2023.

The Company monitors capital using a ratio of net debt to capitalization. Net debt is calculated as total long-term debt and bank indebtedness less cash and cash equivalents. Capitalization comprises net debt and equity attributable to equity shareholders. Under the Credit Facility agreement, the Company is subject to certain financial covenants, including a total debt to total capitalization ratio of less than 32.5%, with calculations based on defined terms under the Credit Facility.

The Company is not subject to any statutory capital requirements. Under the Company's Option Plan, commitments exist to issue common shares.

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21. Commitments and contingencies

(a) Softwood lumber duty dispute

On October 12, 2015, the softwood lumber agreement between Canada and the US, under which Canadian softwood lumber shipments to the US ("shipments") were assessed an export tax by the Canadian government, expired.

From 2017 onward, as a result of petitions filed by the US Lumber Coalition, and others, and determinations made by the US International Trade Commission, the US Department of Commerce ("DoC") imposed Countervailing ("CV") and Anti-dumping duties ("AD") on shipments to the US from Canada. As a result of these actions, cash deposits for CV were required for Canadian lumber imports to the US effective April 28, 2017 through August 25, 2017, and from December 28, 2017 onwards; and cash deposits for AD were required for Canadian lumber imports to the US effective June 30, 2017 until December 26, 2017, and from December 28, 2017 onwards.

As each DoC Administrative Review ("AR") of a shipment year is completed, final rates are published in the federal register and a revised cash deposit rate is established until publication of final rates of the next AR.

The Company expenses export taxes at the cash duty deposit rate as lumber shipments are made. Where final duty rates differed from cash deposit rates, the Company recognized revisions to its export tax expense.

As cash deposit rates exceeded final duty rates for lumber shipments made in 2017 through 2022, the Company recognized a long-term interest-bearing duty receivable totalling USD\$47.3 million (CAD\$68.1 million) in its consolidated statement of financial position (2023: USD\$46.6 million; CAD\$61.7 million), of which USD\$0.8 million (CAD\$1.0 million) was recognized as an export tax recovery in 2024 (2023: USD\$3.5 million; CAD\$4.3 million). This recovery was netted against export tax expense of \$25.5 million (2023: \$20.2 million), resulting in a net export tax expense of \$24.5 million (2023: \$15.9 million) as recorded in the statement of comprehensive loss.

Under US law, the DoC and US International Trade Commission ("USITC") are required to conduct a sunset review no later than five years after an AD or CV order is issued. The DoC review determines whether revoking the orders would be likely to lead to a continuation or recurrence of dumping or subsidies. The USITC review determines whether revoking the orders would be likely to lead to a continuation or recurrence of material injury to the US industry. If both determinations are negative, the orders will be revoked.

On March 27 and April 3, 2023, the DoC issued the final results of its first sunset review of the CV and AD orders, respectively, concluding that if duties on Canadian softwood lumber products were revoked, there would likely be a continuation or recurrence of countervailable subsidies and dumping. On November 30, 2023, the USITC issued its final determination under the sunset review, concurring with the DoC conclusion.

On January 17, 2024, the Government of Canada filed a notice of intent to challenge the USITC decision to maintain duties on Canadian softwood lumber products, under Chapter 10 of the Canada-United States-Mexico Agreement.

On March 5, 2024, the DoC initiated its sixth AR of CV and AD for shipments in 2023. On January 17, 2025, the DoC announced that it would issue the preliminary results for the sixth AR AD by February 20, 2025, but has not yet announced a timeline for the issue of the CV preliminary results.

On August 12, 2024, the DoC released its final determination for CV and AD rates from its fifth AR for shipments in 2022, and on September 24, 2024 amended the AD rate to correct a ministerial calculation error. The Company recognized an additional export tax recovery of USD\$0.8 million (CAD\$1.0 million) in 2024. Effective August 19, 2024, cash deposits will continue at the revised combined duty rate of 14.4% until publication of final rates of the sixth AR in the federal register.

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21. Commitments and contingencies (continued)

(a) Softwood lumber duty dispute (continued)

The following table summarizes the cash deposit rates in effect and the final rates applicable to Canadian lumber shipments to the US in 2017 through 2022:

Lumber shipment date	Aug. 1, 2023	Aug. 9, 2022	Jan. 10, 2022	Dec. 1, 2021	Dec. 1, 2020	Jan. 1, 2020	Year			
	Aug. 19, 2024 onward	through Aug. 18, 2024	through Jul. 31, 2023	through Aug. 8, 2022	through Jan. 9, 2022	through Nov. 30, 2021	through Nov. 30, 2020	2019	2018	2017
Cash deposit rate										
CV	6.74%	1.79%	3.83%	6.32%	6.31%	7.42%	14.19%	14.19%	14.19%	14.19%
AD	7.66%	6.26%	4.76%	11.59%	11.59	1.57%	6.04%	6.04%	6.04%	6.04%
Combined	14.40%	8.05%	8.59%	17.91%	17.90	8.99%	20.23%	20.23%	20.23%	20.23%
					AR5	AR4	AR3	AR2	AR1	AR1
Lumber shipment year					2022	2021	2020	2019	2018	2017
Duty rate					Final	Final	Final	Final	Final	Final
CV					6.74%	1.79%	3.83%	6.32%	7.42%	7.26%
AD					7.66%	6.26%	4.76%	11.59%	1.57%	1.57%
					14.40%	8.05%	8.59%	17.91%	8.99%	8.83%

As at December 31, 2024, including interest of USD\$10.2 million (2023: USD\$6.8 million), the duty receivable of USD\$57.5 million (2023: USD\$53.4 million) was revalued at the year-end exchange rate to CAD\$82.7 million (2023: CAD\$70.8 million).

Interest revenue of \$4.6 million was recorded in finance costs for the year ended December 31, 2024 (2023: \$3.8 million). A foreign exchange gain of \$6.4 million was recorded in other income (loss) for the year ended December 31, 2024 (2023: foreign exchange loss of \$1.1 million).

As at December 31, 2024, the Company had paid \$264 million (USD\$184 million) of duties, all of which remain held in trust by US Department of Treasury (2023: \$219 million (USD\$165 million)). With the exception of USD\$47.3 million (CAD\$68.1 million) of duty deposits recognized as a receivable, all duty deposits have been expensed at the cash deposit rates in effect at the date of payment.

(b) Manufactured Forest Products Regulation

In 2020, the Province amended the Manufactured Forest Products Regulation (the "Regulation") to require lumber made from Western Red Cedar ("WRC") and cypress ("yellow cedar") be fully manufactured to be eligible for export, with the application of a tax on WRC and yellow cedar exported from the BC Coast to any location within 3,000 miles. The Regulation set a variable tax rate dependent upon the extent of processing applied to the lumber before it is exported and based on the cash deposit rate levied set by the DoC for Canadian lumber imports to the US (see Note 21(a)).

During 2024, the Company recorded export tax expense of \$2.8 million (2023: \$2.4 million) in cost of goods sold in respect of this Regulation.

(c) Litigation and claims

In the normal course of business, the Company may be subject to claims and legal actions that may be made by customers, unions, suppliers and others in respect of which either provision has been made or for which no material liability is expected. Where the Company is unable to determine the outcome of these disputes no amounts have been accrued in these consolidated financial statements.

Western Forest Products Inc.

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21. Commitments and contingencies (continued)

(d) Long-term fibre supply agreements

Accounting policy

Deferred revenue is the result of the contractual obligations incurred upon the acquisition of the Englewood Logging Operation in March 2006 and calls for Western to deliver a specified volume of fibre (chips and pulp logs) over the term of the contract. Accordingly, the deferred revenue is amortized into net income for the period on a straight-line basis over 40 years, being the term of the related fibre supply contract.

Supporting information

The Company has long-term commitments to supply fibre to third parties including a 40-year agreement, entered into on March 17, 2006 in conjunction with its acquisition of the Englewood Logging Division ("Englewood"). As consideration for entering into this agreement, the Company received a price premium of \$80.0 million earned as wood chips are delivered over the contract term, of which \$45.0 million was set-off against the consideration due by the Company on its acquisition of the Englewood assets. The Company recorded the price premium as deferred revenue (Note 24(b)) and granted a first charge over the acquired assets to secure certain of these obligations.

In addition, certain of the Company's long-term fibre supply agreements with third parties have minimum volume requirements and may, in the case of a failure to produce the minimum annual volume, require the Company to conduct whole log chipping or sell saw logs, which could reduce log availability for our sawmills, source the deficiency from third parties at additional cost or incur a penalty under the fibre supply agreements. If the Company takes any significant curtailments in its sawmills its chip production would decline, increasing the risk that the Company would not meet its contractual obligations where it is not possible to secure replacement chips on the open market. Based on chip and pulp log volumes supplied in 2024 and 2023, and the exercise of force majeure provisions the Company believes it has satisfied annual fibre commitments for those years.

(e) Bond obligations

As at December 31, 2024 the Company posted \$10.8 million in bid bonds (2023: \$11.9 million) for purchases under timber sales agreements, with expiry dates extending through January 2026 and \$37.4 million in customs bonds (2023: \$37.8 million) for softwood lumber duties. The customs bonds, which are partially secured by letters of credit of \$24.5 million (2023: \$18.6 million) at December 31, 2024, remain outstanding until the related softwood lumber duties are liquidated.

(f) Purchase commitments

As at December 31, 2024, the Company had contracts to acquire equipment totalling \$12.2 million (2023: \$7.5 million) and contractual commitments of \$11.2 million (2023: \$9.6 million) for purchases of lumber for wholesale programs.

(g) Allowable Annual Cut Reductions

In June, 2023, British Columbia's ("the Province") deputy chief forester set a new allowable annual cut ("AAC") for Tree Farm Licence ("TFL") 44, reducing the allowable annual log harvest from 793,600 cubic metres ("m³") to 642,800 m³. The lowered AAC was effective immediately and reflects harvest reductions associated with forest resources and socio-economic objectives of the Crown including the reallocation of previously unharvested volume to new forest licences.

The TFL 44 licence is held by the Tsawak-qin Forestry Limited Partnership ("TFLP"), a partnership between Western and Huumiis Ventures Limited Partnership, a limited partnership beneficially owned by the Huu-ay-aht First Nations ("HFN"). The Company, TFLP and the HFN engaged with the Province on the issues identified as part of the AAC determination. We expect the Province to update the AAC determination, thus the Company is unable to assess the potential impact of this AAC determination on the business at this time.

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21. Commitments and contingencies (continued)

(g) Allowable Annual Cut Reductions (continued)

In June 2024, the Province determined a new AAC for the North Island Timber Supply Area ("TSA"), reducing the allowable annual log harvest from 1,248,100 m³ to 1,096,000 m³. Western holds Forest Licence A19231 and A94737 (the "Forest Licences") in the TSA, which have a current AAC of 303,283 m³, and 5,443 m³, respectively. The Company expects the AAC of the Forest Licences to be reduced proportionally, however the Province has not yet made a decision on the apportionment of the AAC reduction to each timber tenure in the TSA. Accordingly, the Company is unable to assess the potential impact of this AAC determination on the business at this time.

(h) Pension funding commitments

The Company has funding requirements under its defined benefit pension plans of \$0.7 million for 2025 and an estimated \$0.7 million per year on average for 2026 to 2031, or until such time as a new funding valuation may lead to a change in the payments required.

22. Employee future benefits

Accounting policy

(a) Termination benefits

Termination benefits are expensed at the earlier of when the Company can no longer withdraw the offer of those benefits and when the Company recognizes a cost for restructuring that includes the payment of termination benefits.

(b) Short-term employee benefits

Short-term employee benefit obligations, including bonus plans, are measured on an undiscounted basis and are expensed as the related service is provided. A liability is recognized for expected payments if the Company has a present legal or constructive obligation to pay this amount as a result of past service provided by the employee and the obligation can be reliably estimated.

(c) Employee future benefits

The Company has various defined benefit and defined contribution plans that provide pension or other retirement benefits to most of its salaried employees and certain hourly employees not covered by forest industry union plans. The Company also provides other post-employment benefits and pension bridging benefits to eligible retired employees.

The defined benefit plan provides a specified pension benefit to be received by an employee after retirement, usually dependent on one or more factors such as age, years of service and compensation. The Company's net obligation in respect of its defined benefit plans is calculated separately for each plan by estimating the amount of future benefit that employees have earned in return for their service in the current and prior periods discounted to present value, and offset by the fair value of the plan assets. The calculation is performed annually by a qualified actuary using the actuarial cost projected unit credit method.

When the calculation gives rise to a pension asset, the recognized asset is limited to the present value of economic benefits available in the form of any future refunds from the defined benefit plan or reductions in future contributions to the defined benefit plan. In order to calculate the present value of economic benefits, consideration is given to any minimum funding requirements that apply to any defined benefit plan.

Remeasurements of the net defined benefit liability, which comprise actuarial gains and losses, the return on plan assets and the effect of the asset ceiling test are recognized immediately in other comprehensive income. The Company calculates the net interest expense (income) on the liability by applying the discount rate used to measure the defined benefit obligation at the beginning of the year to the liability, considering any changes in the net defined benefit liability over the year as a result of contributions and benefit payments. Net interest and other expenses related to defined benefit plans are recognized in net income.

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Years ended December 31, 2024 and 2023

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22. Employee future benefits (continued)

Accounting policy (continued)

(c) Employee future benefits (continued)

Where a defined benefit plan's benefits are altered or curtailed, the resulting change in benefit that relates to past service or the gain or loss on curtailment is recognized immediately in net income. The Company recognizes gains and losses on settlement of a defined benefit plan when the settlement occurs.

Western also makes fixed contributions to privately administered investment funds on behalf of defined contribution plan members. The Company has no further payment obligations once the contributions have been paid.

The contributions are recognized as employee benefit expense in net income as services are rendered by employees. Prepaid contributions are recognized as an asset to the extent that a cash refund or a reduction in the future payments is available.

For hourly employees covered by forest industry union defined benefit pension plans, the Company's contributions as required under the collective agreements are charged to net income as services are rendered by employees. The Company has no further payment obligations once the contributions have been paid.

Supporting information

Information about the Company's defined benefit salaried pension plans and other non-pension benefits, in aggregate, is as follows:

	December 31, 2024		December 31, 2023	
	Salaried pension plans	Non-pension plans	Salaried pension plans	Non-pension plans
Accrued benefit obligation:				
Balance, beginning of year	\$ 90.6	\$ 2.3	\$ 90.8	\$ 2.3
Current service costs and administrative expenses	0.3	-	0.3	-
Benefits and administrative expenses paid	(8.0)	(0.2)	(8.0)	(0.2)
Interest cost	4.0	0.1	4.5	0.1
Actuarial loss	0.7	-	3.0	0.1
Balance, end of year	\$ 87.6	\$ 2.2	\$ 90.6	\$ 2.3
Plan assets:				
Fair value, beginning of year	\$ 88.2	\$ -	\$ 88.0	\$ -
Company's contributions	1.2	0.2	0.8	0.2
Benefits and administrative expenses paid	(7.9)	(0.2)	(7.8)	(0.2)
Interest on plan assets	3.9	-	4.4	-
Actuarial gain (loss)	(0.5)	-	2.8	-
Fair value, end of year	\$ 84.9	\$ -	\$ 88.2	\$ -
Net employee future benefits recognized in consolidated statements of financial position ^(Note 14)	\$ 2.7	\$ 2.2	\$ 2.4	\$ 2.3
Cumulative actuarial gains (losses), beginning of year	\$ (30.8)	\$ 3.1	\$ (30.6)	\$ 3.2
Actuarial loss recognized directly in OCI	(1.2)	-	(0.2)	(0.1)
Cumulative actuarial gains (losses), end of year	\$ (32.0)	\$ 3.1	\$ (30.8)	\$ 3.1
Experience gains (losses):				
Experience gains (losses) on plan assets:				
Amount	\$ (0.4)	n/a	\$ 2.8	n/a
Percentage of plan assets	(0.44%)	n/a	3.21%	n/a
Experience gains (losses) on plan liabilities:				
Amount	\$ (0.1)	\$ -	\$ 1.0	\$ (0.2)
Percentage of plan liabilities	(0.07%)	0.00%	1.12%	(8.21%)

Western Forest Products Inc.

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22. Employee future benefits (continued)

Supporting information (continued)

(c) Employee future benefits (continued)

The Company has several funded and unfunded defined benefit plans, a defined contribution pension plan and a group registered retirement savings plan which provide retirement benefits to substantially all salaried employees and certain hourly employees. In addition, the Company provides other unfunded post-employment benefits to certain former salaried and hourly employees.

The funded and unfunded defined benefit pension plans were closed to new entrants effective June 30, 2006. No further benefits accrue under these plans for years of service after December 31, 2010, and no further benefits accrue under these plans for compensation increases effective December 31, 2016. The Company's other post-employment benefit plans are non-contributory and include a range of health care and other benefits.

Total cash payments for employee future benefits for the year ended December 31, 2024 were \$12.6 million (2023: \$12.4 million), consisting of cash contributed by the Company to its funded pension plans, cash payments directly to beneficiaries for its unfunded other benefit plans, and cash contributed to the forest industry union defined benefit plans.

The Company measures the fair value of plan assets and the accrued benefit obligations for its defined benefit plans for accounting purposes annually at December 31. The most recent actuarial valuations of the funded defined benefit pension plans were performed at December 31, 2021. The next actuarial valuation for both the funded and unfunded defined benefit plans and other unfunded post-employment benefit plans is scheduled in 2025 for December 31, 2024. Included in the accrued benefit obligations and plan assets for salaried pension plans, are accrued benefit obligations of \$85.4 million at December 31, 2024 (2023: \$87.9 million) in respect of plans that are wholly or partially funded.

The following is a breakdown of the defined benefit pension plan assets by nature of investment categories:

	December 31, 2024	December 31, 2023
Equity securities	5%	5%
Debt securities	92%	92%
Other	3%	3%
	<u>100%</u>	<u>100%</u>

The significant actuarial assumptions adopted in measuring the Company's accrued benefit obligations (expressed as weighted averages) are as follows:

	December 31, 2024	December 31, 2023	December 31, 2024 Increase (decrease) of accrued benefit obligation with change assumption	
			1% Increase	1% Decrease
Discount rate, beginning of year for:				
Pension plans	4.63%	5.17%	n/a	n/a
Non-pension plans	4.65%	5.20%	n/a	n/a
Discount rate, end of year for:				
Pension plans	4.54%	4.63%	\$ (7.4)	\$ 8.7
Non-pension plans	4.50%	4.65%	(0.2)	0.2
Rate of compensation increase for all plans	0.00%	0.01%	-	-

Western Forest Products Inc.

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22. Employee future benefits (continued)

Supporting information (continued)

(c) Employee future benefits (continued)

The Company's salaried employees' pension and non-pension benefits expense is as follows:

	December 31, 2024		December 31, 2023	
	Salaried pension plans	Non-pension plans	Salaried pension plans	Non-pension plans
Defined benefit plans:				
Current service costs and administrative expenses	\$ 0.3	\$ -	\$ 0.3	\$ -
Net interest cost ^(Note 27)	0.1	0.1	0.1	0.1
Total cost of employee post-retirement benefits	<u>\$ 0.4</u>	<u>\$ 0.1</u>	<u>\$ 0.4</u>	<u>\$ 0.1</u>

The Company is committed to making funding contributions to its defined benefit plans of \$1.2 million during 2025.

The Company's unionized employees are members of industry-wide pension plans to which the Company contributes a predetermined amount per hour worked by an employee. The Company's liability is limited to its contributions. The pension expense for these plans is equal to the Company's contributions. For 2024, such contributions amounted to \$6.3 million (2023: \$6.0 million).

23. Segmented information

Accounting policy

A business segment is a group of assets and operations engaged in providing products or services subject to risks and returns that are different from those of other business segments. The Company is an integrated forest products company operating in one business segment comprised of timber harvesting, lumber manufacturing and log and lumber sales in world-wide markets.

A geographical segment is engaged in providing products or services within a particular economic environment subject to risks and returns that are different from those of segments operating in other economic environments.

The Company manages its business as a single operating segment, with the majority of Western's property, plant and equipment, biological assets and timber licences located in BC, Canada. The Company harvests and purchases logs which it manufactures into lumber at the Company's sawmills and remanufacturing facilities, and sells its logs and lumber in world-wide markets. Supporting information is included in Note 24.

24. Revenue

Accounting policy

Revenue from the sale of goods or provision of services is measured based on the consideration specified in a customer contract, net of rebates and discounts. Revenue is recognized when control over a product transfers from the Company to the customer. The timing of transfer of control varies dependent upon the individual terms of the sales contract.

Amounts charged to customers for shipping and handling are recognized as revenue and shipping and handling costs and export taxes incurred by the Company are recorded in costs and expenses.

The following is a description of principal activities from which the Company generates its revenue.

Lumber

Revenue is recognized when control over lumber and engineered wood products is transferred to the customer. The timing of transfer of control varies depending on the individual terms of the sales contract, but is typically when lumber is loaded onto the mode of transportation. The revenue recognized is adjusted for discounts related to early payment at the point in time control is transferred, based on historical experience.

Western Forest Products Inc.

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24. Revenue (continued)

Accounting policy (continued)

Logs

Revenue is recognized when control over logs is transferred to the customer. The timing of transfer of control varies depending on the individual terms of the sales contract, but is typically at the time logs are loaded onto the vessel or delivered to the transfer point, and payment is secured. No early payment discounts are offered for log sales.

By-products

Revenue is recognized when control over by-products is transferred to the customer, the timing of this transfer of control varies depending on the individual terms of the sales contract, but is typically at the time by-products leave the Company's facilities or are scaled at the pick-up location. No early payment discounts are offered for by-product sales.

Forestry services and other

Revenue is recognized for harvesting, road building and other services as performance obligations under the contractual arrangement are met and services are delivered. No early payment discounts are offered for forestry and other services performed.

Supporting information

(a) Disaggregation of revenue

In the following table, revenue is disaggregated by primary geographical market, based on the known origin of the customer, and by major product.

	Years ended December 31,	
	2024	2023
Primary geographic markets		
Canada	\$ 391.5	\$ 392.9
United States	381.0	351.5
Japan	125.0	129.8
China	79.4	72.2
Other	73.7	57.4
Europe	13.3	13.7
	<u>\$ 1,063.9</u>	<u>\$ 1,017.5</u>
Major products		
Lumber	\$ 817.1	\$ 781.6
Logs	188.0	180.9
By-products	41.7	39.8
Forestry services and other	17.1	15.2
	<u>\$ 1,063.9</u>	<u>\$ 1,017.5</u>

(b) Contract balances

The following table provides information about receivables and contract liabilities from contracts with customers.

	Years ended December 31,	
	2024	2023
Trade and other receivables	\$ 57.5	\$ 50.9
Long-term loan receivable ^(Note 9)	0.7	0.9
Contract liabilities	42.5	44.5

The contract liabilities relate to the consideration received from a customer for a long-term fibre supply contract and are recognized as deferred revenue, for which revenue is recognized straight-line over the term of the contract (see Note 21(d)). The Company recognized related revenue of \$2.0 million in 2024 (2023: \$2.0 million).

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25. Operating restructuring items

	Years ended December 31,	
	2024	2023
Retirement and other benefits ^(Note 5)	\$ 1.3	\$ 7.1
Impairment of assets held for sale ^(Note 5)	2.8	-
Curtailment costs ^(Note 5)	0.9	-
Other	0.5	0.4
	<u>\$ 5.5</u>	<u>\$ 7.5</u>

In 2024, the Company reversed \$0.9 million in retirement and other benefits previously recognized, offsetting \$2.2 million recognized on the indefinite curtailment of APD. In 2023, the Company recognized \$5.7 million in retirement and other benefits on the indefinite curtailment of APD, and \$1.4 million as a result of rightsizing of various operational functions within the business.

26. Other income (expense)

	Years ended December 31,	
	2024	2023
Loss on disposal of property, plant and equipment ^(Notes 5, 6)	\$ (0.6)	\$ (0.2)
Foreign exchange gains (losses)	7.0	(1.5)
Other	0.1	0.5
	<u>\$ 6.5</u>	<u>\$ (1.2)</u>

27. Finance costs

Accounting policy

Finance costs comprise interest expense on long-term debt and lease liabilities, amortization of deferred financing costs, unwinding of the discount on the reforestation obligation, net interest on the defined benefit plan obligation, offset by interest revenue accrued on the export tax receivable and other notes receivable. All finance costs (income) are recognized in net income during the period using the effective interest method with the exception of the net interest on the net defined benefit obligation, which is recognized as described in Note 22.

Supporting information

	Years ended December 31,	
	2024	2023
Long-term debt	\$ 8.8	\$ 4.3
Lease liabilities ^(Note 12)	1.1	1.3
Employee future benefits obligation ^(Note 22)	0.2	0.2
Unwind of discount on provisions ^(Note 13)	0.5	0.5
Interest revenue on export tax receivable ^{(Note 21(a))}	(4.6)	(3.8)
Amortization of deferred financing costs	0.3	0.2
Other	0.4	0.3
	<u>\$ 6.7</u>	<u>\$ 3.0</u>

28. Financial instruments – fair values and risk management

Accounting policy

IFRS 9, *Financial Instruments* sets out requirements for recognizing and measuring financial assets, financial liabilities and some contracts to buy or sell non-financial items, as described below.

(a) Financial assets

The Company classifies its financial assets in the following categories: amortized cost, fair value through other comprehensive income (“FVOCI”) – debt investment; FVOCI – equity investment; or fair value through profit and loss (“FVTPL”), depending upon the business model in which a financial asset is managed and its contractual cash flow characteristics.

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28. Financial instruments – fair values and risk management (continued)

Accounting policy (continued)

(a) Financial assets (continued)

A financial asset is measured at amortized cost if it meets both of the following conditions:

- it is held within a business model whose objective is to hold assets to collect contractual cash flows; and
- its contractual terms give rise on specified dates to cash flows that are solely payments of principal and interest on the principal amount outstanding.

All financial assets not measured at amortized cost or FVOCI are measured at FVTPL. This includes all derivative financial assets including foreign currency forward contracts and export tax receivable.

Cash and cash equivalents, short-term investments expected to be held to maturity, and trade and other receivables are categorized as amortized cost and are initially measured at fair value plus any direct transaction costs and thereafter at amortized cost using the effective interest rate method, less any impairment losses. The Company applies an “expected credit loss” (“ECL”) model to calculate the impairment of financial assets.

The Company does not currently have any debt or equity investments classified as measured at FVOCI.

(b) Financial liabilities

Financial liabilities are recognized for contractual obligations to deliver cash or other financial assets or exchange financial assets or financial liabilities under potentially unfavourable conditions.

Trade payables and provisions, lease liabilities, and loans and borrowings including long-term debt are categorized as other financial liabilities and are initially measured at fair value on the transaction or origination date less any related transaction costs and thereafter at amortized cost using the effective interest rate method. The Company derecognizes a financial liability when its contractual obligations are discharged, cancelled, or expire. The Company’s non-derivative financial liabilities are measured at amortized cost using the effective interest method.

The Company may enter into derivative financial instruments (foreign currency forward contracts) in order to mitigate its exposure to foreign exchange risk. The Company’s policy is not to use derivative financial instruments for trading or speculative purposes and has not designated these instruments as hedges for accounting purposes. Measured at FVTPL, the Company records these contracts at fair value on the consolidated statements of financial position with changes in value recognized as gains or losses within sales in net income.

(c) Derivative financial instruments

Financial assets and liabilities are offset, and the net amount presented in the consolidated statements of financial position when, and only when, the Company has a legal right to offset the amounts and intends either to settle on a net basis or to realize the asset and settle the liability simultaneously.

Supporting information

(d) Accounting classifications and fair values

The following table shows the carrying amounts and fair values of financial assets and financial liabilities, including their levels in the fair valuation hierarchy. It does not include fair value information for financial assets or liabilities not measured at fair value if the carrying amount is a reasonable approximation of fair value. Fair value level categorizations remain unchanged between 2024 and 2023.

Western Forest Products Inc.

Notes to the Consolidated Financial Statements

Years ended December 31, 2024 and 2023

(Tabular amounts expressed in millions of Canadian dollars except number of shares and per share amounts)

28. Financial instruments – fair values and risk management (continued)

Supporting information (continued)

(d) Accounting classifications and fair values (continued)

	December 31, 2024			December 31, 2023			
	Level	Mandatory at FVTPL	Amortized cost	Total	Mandatory at FVTPL	Amortized cost	Total
Financial assets							
Cash and cash equivalents	2	\$ -	\$ 7.9	\$ 7.9	\$ -	\$ 2.3	\$ 2.3
Trade and other receivables	3	-	57.5	57.5	-	50.9	50.9
Note receivable ^(Note 9)	3	-	2.6	2.6	-	2.6	2.6
Long-term receivable ^(Note 9)	3	-	0.3	0.3	-	0.6	0.6
Other advances	3	-	1.2	1.2	-	1.0	1.0
Export tax and related interest receivable ^{(Note 21(a))}	3	82.7	-	82.7	70.8	-	70.8
Total financial assets		\$ 82.7	\$ 69.5	\$ 152.2	\$ 70.8	\$ 57.4	\$ 128.2
Financial liabilities							
Bank indebtedness	2	\$ -	\$ -	\$ -	\$ -	\$ 0.9	\$ 0.9
Accounts payable and accrued liabilities	2	-	110.7	110.7	-	102.8	102.8
Liabilities directly associated with assets held for sale ^(Note 5)	2	-	0.3	0.3	-	0.3	0.3
Long-term debt ^(Note 11)	2	-	86.0	86.0	-	84.1	84.1
Lease liabilities ^(Note 12)	2	-	19.5	19.5	-	19.9	19.9
Total financial liabilities		\$ -	\$ 216.5	\$ 216.5	\$ -	\$ 208.0	\$ 208.0

(e) Financial risk management

The use of financial instruments exposes the Company to credit risk, liquidity risk, and market risk. Other than as described below, Management does not consider the risks to be significant.

The Board of Directors has oversight responsibility for the Company's risk management framework. The Company identifies, analyzes and actively manages the financial market risks associated with changes in foreign exchange rates, interest rates and commodity prices. Western has established risk management policies and controls to identify and analyze the risks faced by the Company, to set appropriate risk limits and to monitor risks and adherence to limits. Currently, the Company only engages in foreign exchange forward contract trading activities to mitigate exposure to foreign currency fluctuations.

(i) Credit risk

Credit risk is the risk of financial loss to the Company should a customer or counterparty to a financial instrument fail to meet its contractual obligations and arises primarily from the Company's receivables from customers. The carrying amount of the Company's financial assets represents its maximum credit exposure.

The Company held cash and cash equivalents of \$7.9 million at December 31, 2024 (2023: \$2.3 million), which represents its maximum credit exposure on these assets. The cash and cash equivalents are held at highly rated financial institutions and as such, the Company does not believe that these are exposed to significant credit risk.

Western Forest Products Inc.

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Years ended December 31, 2024 and 2023

(Tabular amounts expressed in millions of Canadian dollars except number of shares and per share amounts)

28. Financial instruments – fair values and risk management (continued)

Supporting information (continued)

(e) Financial risk management (continued)

(i) Credit risk (continued)

Accounts receivable

The Company's exposure to credit risk is influenced mainly by the individual characteristics of each customer. The Company has established policies and controls to review the creditworthiness of new customers, including review of external credit ratings, and bank and other references. Purchase limits are established for each customer and are regularly reviewed. In some cases, where customers fail to meet the Company's benchmark creditworthiness, the Company may choose to transact with the customer based on terms which are secured by a guarantee or cash deposit or alternatively by insuring the accounts receivable.

The Company's general practice is to insure substantially all lumber receivables for 90% of value with the Export Development Canada or Coface Canada, with the exception of China and Japan which are sold on either a cash basis or secured by irrevocable letters of credit, which limits the Company's credit exposure.

Management also considers the demographics of the Company's customer base, including the default risk of the industry and country in which customers operate, as these factors may influence credit risk. The Company has determined that there is no concentration of credit risk either geographically or by counterparty.

The Company regularly reviews the collectability of its accounts receivable and establishes an allowance for doubtful accounts based on its best estimate of any potentially uncollectible accounts. The allowance for doubtful accounts was negligible as at December 31, 2024 and 2023.

The aging of trade and other receivables as at December 31 was as follows:

	December 31, 2024	December 31, 2023
Not past due	\$ 58.6	\$ 49.1
Past due 0-30 days	1.5	1.8
Greater than 30 days past due	-	-
	<u>\$ 60.1</u>	<u>\$ 50.9</u>

Other assets

The Company has recognized a long-term receivable from the DoC for recovery of export tax and accrued interest thereon totalling \$82.7 million (see Note 21(a)).

Although the timing of receipt of the refund remains uncertain, the collectability has minimal risk as the amounts are supported by published rates and established calculation methodology published in the US Federal Register, and responsibility for payment lies with the US Department of Treasury, considered to be creditworthy.

Guarantees

The Company did not provide any guarantees in 2024 and 2023.

(ii) Liquidity risk

Liquidity risk is the risk that the Company will encounter difficulty in meeting the obligations associated with its financial liabilities that are settled by delivering cash or another financial asset. Management mitigates any liquidity risk associated with the subsequent payment of liabilities through the continual monitoring of expenditures and forecasting of liquidity resources. The Company maintains a revolving credit facility that can be drawn down to meet short-term financing and liquidity needs.

Western Forest Products Inc.

Notes to the Consolidated Financial Statements

Years ended December 31, 2024 and 2023

(Tabular amounts expressed in millions of Canadian dollars except number of shares and per share amounts)

28. Financial instruments – fair values and risk management (continued)

Supporting information (continued)

(e) Financial risk management (continued)

(ii) Liquidity risk (continued)

As at December 31, 2024, the Company had \$136.7 million (2023: \$146.4 million) unutilized drawings available under its Credit Facility. The following are the contractual maturities of financial liabilities, including estimated interest payments:

	Carrying amount	Contractual cash flows	1 year or less	2 – 3 years	4 – 5 Years	More than 5 years
Accounts payable and accrued liabilities	\$ 110.7	\$ 110.7	\$ 110.7	\$ -	\$ -	\$ -
Lease liabilities ¹	19.8	21.2	7.7	8.5	2.2	2.8
Long-term debt	86.0	95.3	6.0	89.3	-	-
	<u>\$ 216.5</u>	<u>\$ 227.2</u>	<u>\$ 124.4</u>	<u>\$ 97.8</u>	<u>\$ 2.2</u>	<u>\$ 2.8</u>

¹ Includes liabilities directly associated with assets held for sale

(iii) Market risk

Interest rate risk

The Company is exposed to interest rate risk through its current financial assets and financial obligations bearing variable interest rates. Based on the Company's debt structure at December 31, 2024, an increase of 1% in interest rates would result in a decrease of \$0.9 million to annual net income (2023: \$0.9 million). The Company does not currently use derivative instruments to reduce its exposure to interest rate risk.

Currency risk

The Company is exposed to currency risk on cash and cash equivalents, accounts receivable, duty deposits and recoveries, accounts payable and provisions and intercompany loans that are denominated in a currency other than the respective functional currencies of the Company's domestic and foreign operations.

Most of the Company's sales transactions are denominated in foreign currencies, primarily, the USD and Japanese Yen ("JPY"), exposing the Company to currency risk associated with changes in foreign exchange rates. The Company routinely assesses its foreign exchange exposure and may use foreign currency exchange forward, collar and option contracts to manage its currency risk. The Company does not consider the credit risk associated with the counterparty risk to be significant.

During 2024, the Company entered into forward contracts to sell USD and JPY in order to mitigate a portion of the foreign currency risk. At December 31, 2024, the Company had outstanding obligations to sell an aggregate USD\$12.0 million at an average exchange rate of CAD\$1.4369 per USD with maturities through January 2, 2025 (2023: USD\$13.0 million at an average exchange rate of CAD\$1.3279 per USD) and recorded a negligible fair value asset (2023: \$0.1 million asset) in its consolidated statement of financial position. In 2024, the Company recorded \$1.9 million in losses on forward contracts (2023: \$1.1 million gain) in revenue in its statement of profit and loss.

Forward contracts in a liability position are included in accounts payable and accrued liabilities on the consolidated statements of financial position and assets are included in trade and other receivables.

An increase of 1% in the value of the CAD relative to the USD would result in a loss of approximately \$0.2 million in relation to the USD foreign exchange contracts held at December 31, 2024 (2023: \$0.1 million loss).

Western Forest Products Inc.

Notes to the Consolidated Financial Statements

Years ended December 31, 2024 and 2023

(Tabular amounts expressed in millions of Canadian dollars except number of shares and per share amounts)

28. Financial instruments – fair values and risk management (continued)

Supporting information (continued)

(e) Financial risk management (continued)

(iii) Market risk (continued)

Currency risk (continued)

As at December 31, 2024, the Company held USD\$1.8 million (2023: USD\$1.8 million) in cash and cash equivalents. An increase of 1% in the value of the Canadian dollar relative to the USD would result in a negligible decrease to cash and cash equivalents (2023: negligible decrease).

Certain receivable balances at December 31, 2024 are denominated in foreign currencies, principally, the USD. Accordingly, fluctuations in foreign exchange rates may affect the carrying value of the underlying accounts receivable. As at December 31, 2024, the Company's USD denominated accounts and other receivables totaled USD\$17.6 million (2023: USD\$17.2 million). An increase of 1% in the value of the Canadian dollar relative to the USD would result in a decrease of \$0.4 million to accounts and other receivables (2023: \$0.3 million decrease).

As at December 31, 2024, the Company's export tax receivable and related interest totaled USD\$57.5 million (2023: USD\$53.4 million). An increase of 1% in the value of the Canadian dollar relative to the USD would result in a decrease of \$0.8 million to accounts and other receivables (2023: \$0.7 million decrease).

Commodity price risk

The Company does not enter into commodity contracts other than to meet the Company's expected usage and sale requirements and such contracts are not settled net.

29. Related parties

Accounting policy

Key management personnel are the Company's directors and executive officers as disclosed in its 2024 and 2023 Annual Reports

Supporting information

Compensation of key management personnel

The key management personnel of the Company include the executive management team and members of the Board of Directors. Key management personnel compensation comprised:

	Years ended December 31,	
	2024	2023
Salaries, directors' fees and short-term benefits	\$ 6.3	\$ 6.2
Post-employment benefits	0.8	0.9
Share-based compensation, including mark-to-market adjustment	0.3	(0.4)
	<u>\$ 7.4</u>	<u>\$ 6.7</u>

As at December 31, 2024, \$6.2 million of key management compensation costs were included in accounts payable and accrued liabilities and other liabilities (2023: \$6.2 million).

Western Forest Products Inc.

Notes to the Consolidated Financial Statements

Years ended December 31, 2024 and 2023

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30. Expense categorization

Expenses by function:

	Years ended December 31,	
	2024	2023
Administration	\$ 30.6	\$ 30.9
Distribution expenses	106.0	103.4
Cost of goods sold	973.7	966.6
	<u>\$ 1,110.3</u>	<u>\$ 1,100.9</u>

Distribution expenses include \$24.5 million of export taxes net of recoveries of \$1.0 million (2023: \$15.9 million net of recoveries of \$4.3 million) on finalization of duty rates (see Note 21(a)).

Selected costs by nature:

	Years ended December 31,	
	2024	2023
Compensation costs	\$ 207.4	\$ 200.2
Amortization in costs of goods sold	52.5	51.5
Amortization in selling and administration	2.2	2.2

Compensation costs are included in cost of goods sold and selling and administration.

31. Subsequent events

Asset sales

On January 31, 2025, the Company entered into an asset purchase agreement for the sale of our APD site, currently classified as an asset held for sale (Note 5), for \$7.3 million. The sale is subject to customary closing conditions and is anticipated to close in the first quarter of 2025.

On February 10, 2025, the Company completed the sale of approximately 14,500 hectares of fee simple land, biological assets and infrastructure on northern Vancouver Island, BC for \$69.2 million to a Canadian affiliate of the Eastwood Climate Smart Forestry Fund I.



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