

WESTERN

Forest Products

Western Forest Products Inc.

2025 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, 2025, 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, 2025 and 2024, which can be found on SEDAR+ at www.sedarplus.ca. Unless otherwise noted, the information in this MD&A is updated to February 10, 2026.

The Company has prepared the consolidated financial statements for the years ended December 31, 2025 and 2024 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.

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 execution of our sales and marketing strategy; the completion of the sale of the CVD facility; the timing it may take to resolve the LFPL labour dispute; the development, completion and implementation of integrated resource management plans or forest landscape plan pilots by First Nations, including the Draft FLP and FOP in TFL 37; determinations of allowable annual cut ("AAC") for the Company's Forest Licences and TFLs, including TFL 6, TFL 64, TFL 39 and TFL 19, and the expected timing thereof; 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 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 2025	Q4 2024	Q3 2025	Annual 2025	Annual 2024
Revenue						
Lumber ⁽²⁾		\$ 154.9	\$ 214.3	\$ 181.1	\$ 764.5	\$ 817.1
Logs		36.8	46.5	38.3	157.6	188.0
By-products		7.4	9.7	8.5	38.4	41.7
Forestry services and other ⁽³⁾		2.8	2.7	5.1	26.0	17.1
Total revenue		201.9	273.2	233.0	986.5	1,063.9
Freight		12.0	17.3	13.6	58.6	69.1
Export tax expense		9.0	8.9	66.0	92.8	24.5
Stumpage		2.4	8.2	4.3	14.6	27.9
Adjusted EBITDA ⁽⁴⁾		\$ (6.2)	\$ 14.4	\$ (65.9)	\$ (68.2)	\$ 8.9
Adjusted EBITDA margin ⁽⁴⁾		(3%)	5%	(28%)	(7%)	1%
Operating loss prior to restructuring and other items		\$ (18.9)	\$ (0.4)	\$ (78.0)	\$ (118.4)	\$ (46.4)
Net loss		(17.5)	(1.2)	(61.3)	(82.4)	(34.5)
Loss per share, basic and diluted	\$ per share	(1.55)	(0.05)	(5.71)	(7.56)	(2.88)
Operating Information						
Lumber shipments ⁽²⁾⁽⁶⁾	mmfbm	108	146	129	522	588
Cedar	mmfbm	19	36	24	106	138
Japan Specialty	mmfbm	20	16	22	83	93
Industrial ⁽²⁾	mmfbm	17	24	20	82	88
Commodity	mmfbm	52	71	62	252	270
Lumber production ⁽²⁾	mmfbm	94	135	107	479	558
Lumber price, average ⁽²⁾	\$/mfbm	\$ 1,437	\$ 1,467	\$ 1,409	\$ 1,463	\$ 1,390
Wholesale lumber shipments	mmfbm	4	6	7	29	30
Log shipments	000 m ³	235	355	207	1,001	1,378
Domestic	000 m ³	181	260	152	797	1,024
Export	000 m ³	-	-	-	-	-
Pulp	000 m ³	54	95	55	204	355
Net production ⁽⁷⁾	000 m ³	491	673	410	1,964	2,768
Saw log purchases	000 m ³	218	234	214	948	750
Log price, average ⁽⁸⁾	\$/m ³	\$ 144	\$ 121	\$ 160	\$ 143	\$ 129
Illustrative Lumber Average Price Data ⁽⁹⁾						
Price Basis						
Grn WRC #2 Clear & Btr 4x6W RL (\$C)	cif dest N Euro	\$ 9,313	\$ 8,108	\$ 8,742	\$ 8,680	\$ 8,217
Grn WRC Deck Knotty 2x6 RL S4S	Net fob Mill	\$ 1,637	\$ 1,431	\$ 1,695	\$ 1,615	\$ 1,266
Grn WRC #2 & Btr AG 6x6 RL	Net fob Mill	\$ 3,650	\$ 3,434	\$ 3,644	\$ 3,580	\$ 3,364
Coast Grn WRC Std&Btr NH 3/4x4 RL S1S2E	Net fob Mill	\$ 1,190	\$ 1,140	\$ 1,178	\$ 1,166	\$ 1,116
KD Hem Baby Squares Merch 4-1/8x4-1/8 13'	c&f dest Japan	\$ 990	\$ 974	\$ 990	\$ 983	\$ 975
KD Dfir Baby Squares Merch 4-1/8x4-1/8 RL S4S	c&f dest Japan	\$ 1,223	\$ 1,104	\$ 1,238	\$ 1,172	\$ 1,127
Grn Dfir (Portland) #1&Btr 100% FOHC 6x6 Rough	Net fob Mill	\$ 1,539	\$ 1,181	\$ 1,564	\$ 1,614	\$ 1,522
Hemlock Lumber 2x4 (40x90) Metric RG Utility ⁽⁹⁾	cif dest Shanghai	n/a	\$ 373	n/a	\$ 380	\$ 390
Hemlock Lumber 4x4 (95x95) Metric RG Utility ⁽⁹⁾	cif dest Shanghai	\$ 460	n/a	\$ 456	\$ 456	n/a
Coast KD Hem-Fir #2 & Btr 2x4	Net fob Mill	\$ 425	\$ 477	\$ 506	\$ 497	\$ 449
Average exchange rate – CAD to USD ⁽¹⁰⁾		0.717	0.715	0.726	0.716	0.730
Average exchange rate – CAD to JPY ⁽¹⁰⁾		110.38	108.89	107.10	107.03	110.50

(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 British Columbia ("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 log production, net of residuals and waste.

(8) The average realized log price per cubic metre has been presented on a gross basis.

(9) Sourced from Random Lengths in USD/Mfbm except Hemlock Metric RG Utility that is sourced from the Forest Economic Advisors LLC China Bulletin ("FEA"). During the second quarter of 2025, FEA ceased publication of the 2x4 Hemlock Metric RG Utility and began publishing the 4x4 Hemlock Metric RG Utility rates. As such 2x4 Hemlock Metric RG Utility YTD price data is reported until April 2025, and 4x4 Hemlock Metric RG Utility YTD price data is subsequent to April 2025.

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

Summary of Fourth Quarter 2025 Results

We reported Adjusted EBITDA of negative \$6.2 million in the fourth quarter of 2025, as compared to \$14.4 million in the same period last year. Results in the fourth quarter of 2025 reflect lower lumber and log shipments and higher export duty rates, partially offset by higher log prices and lower stumpage expense compared to the same period last year.

Sales

Lumber revenue was \$154.9 million in the fourth quarter of 2025 as compared to \$214.3 million in the same period last year. The decrease of 28% was primarily due to lower lumber shipment volumes given weaker market conditions compared to the same period last year. Our average realized lumber price decreased by 2% to \$1,437 per thousand board feet in the fourth quarter of 2025, as compared to \$1,467 per thousand board feet in the same period last year, primarily due to a lower mix of Cedar sales, partially offset by higher gross lumber prices.

Specialty lumber shipments represented 52% of total lumber shipment volumes in the fourth quarter of 2025, as compared to 52% in the same period last year. Cedar and commodity lumber shipment volumes decreased by 47% and 27% respectively, compared to the same period last year on lower North American market demand and higher export duties for sales to the United States.

Log revenue was \$36.8 million in the fourth quarter of 2025, as compared to \$46.5 million in the same period last year. The decrease of 21% was due to lower shipment volumes given lower harvest levels, partially offset by higher average domestic log prices and a stronger sales mix compared to the same period last year.

By-products revenue was \$7.4 million, as compared to \$9.7 million in the same period last year. The decrease of 24% was due to lower chip sales volume and prices.

Forestry services and other revenue were \$2.8 million compared to \$2.7 million in the same period last year.

Operations

Lumber production was 94 million board feet in the fourth quarter of 2025, as compared to 135 million board feet in the same period last year. In the fourth quarter of 2025, additional production curtailments compared to the same period last year were taken due to market conditions and log availability, in addition to lost production from our Columbia Vista sawmill. Sawmill cash conversion costs per thousand board feet increased 10% compared to the same period last year primarily due to lower production volumes.

We harvested 491,000 cubic metres of logs from our BC coastal operations in the fourth quarter of 2025, as compared to 673,000 cubic metres in the same period last year. Harvested volumes decreased primarily due to a strike at the La-kwa sa muqw Forestry Limited Partnership ("LFLP"), harvest permit approval delays and reduced helicopter harvesting availability. BC Coastal saw log purchases were 218,000 cubic metres in the fourth quarter of 2025, as compared to 234,000 cubic metres in the same period last year.

Timberlands cash operating costs per cubic metre increased 7% compared to the same period last year primarily due to lower harvest volumes and changes in the mix of operations, partially offset by lower stumpage expense.

Freight expense was \$12.0 million in the fourth quarter of 2025 as compared to \$17.3 million in the same period last year. The decrease of 31% was primarily due to decreased lumber shipments and changes in the mix of shipping method based on the destination of sales.

We recorded \$9.0 million of export tax expense in the fourth quarter of 2025, as compared to \$8.9 million in the same period last year. Export tax expense increased due to higher duty rates and incremental tariffs implemented in the fourth quarter of 2025, partially offset by lower US-destined lumber shipments.

Corporate and Other

Selling and administration expense was \$9.6 million in the fourth quarter of 2025 as compared to \$10.0 million in the same period last year. The fourth quarter of 2025 included a \$0.1 million expense related to share-based compensation, as compared to a \$0.4 million recovery in the same period last year.

Restructuring costs were \$1.1 million in the fourth quarter of 2025, consisting primarily of curtailment costs at the Columbia Vista Division ("CVD"). 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").

Other loss was \$0.6 million in the fourth quarter of 2025 as compared to other income of \$4.8 million in the same period last year, resulting primarily from differences in unrealized foreign exchange translations on revaluation of our USD-denominated export tax receivable.

Finance costs were \$1.7 million in the fourth quarter of 2025 as compared to \$1.8 million in the same period last year. Finance costs decreased primarily due to lower average debt balances compared to the same period last year, partially offset by lower interest income on our export tax receivable.

Income Taxes

Income tax recovery was \$4.8 million on a net loss before tax of \$22.3 million in the fourth quarter of 2025 as compared to income tax expense of \$1.7 million on income before tax of \$0.5 million in the same period last year. The rate differential results primarily from tax basis differentials and changes in valuation allowances in the fourth quarter of 2024.

Net Loss

Net loss was \$17.5 million in the fourth quarter of 2025, as compared to a net loss of \$1.2 million for the same period last year. Results in the fourth quarter of 2025 were impacted from lower lumber and log shipments and higher export duty rates, partially offset by higher log prices and lower stumpage expense compared to the same period last year.

Summary of Annual 2025 Results

We reported Adjusted EBITDA of negative \$68.2 million for 2025, as compared to \$8.9 million in 2024. Results in 2025 include a non-cash export duty expense of \$59.5 million compared to a \$1.0 million recovery in the same period last year, related to the finalization of certain softwood lumber Administrative Reviews (“AR”). Results were also impacted by lower lumber and log shipment volumes and higher export duty rates, partially offset by higher lumber and log realized prices compared to the same period last year.

Sales

Lumber revenue was \$764.5 million in 2025 as compared to \$817.1 million in the same period last year. The decrease of 6% was due to lower shipments and a weaker sales mix, partially offset by higher prices and a stronger USD to CAD average exchange rate. Our average realized lumber price increased by 5% to \$1,463 per thousand board feet in 2025, as compared to \$1,390 per thousand board feet in the same period last year.

Speciality lumber shipments represented 52% of total lumber shipment volumes in 2025, as compared to 54% in the same period last year. Cedar, Japan, Industrial and Commodity lumber shipments all decreased compared to the same period last year due to weaker market conditions.

Log revenue was \$157.6 million in 2025, as compared to \$188.0 million in the same period last year. The decrease of 16% was due to lower shipment volumes given lower harvest levels, partially offset by higher average domestic log prices and a stronger sales mix.

By-product revenue was \$38.4 million in 2025 as compared to \$41.7 million in the same period last year. The decrease of 8% was due to lower chip volumes.

Forestry services and other revenue were \$26.0 million, as compared to \$17.1 million in the same period last year. The increase of 52% was due to an increase in the volume of approved projects and higher contract values related to work performed with our First Nation joint ventures in 2025 compared to the same period last year.

Operations

Lumber production was 479 million board feet in 2025, as compared to 558 million board feet in the same period last year. In 2025, additional production curtailments were taken compared to the same period last year due to weaker market conditions, log availability and a fire at our Columbia Vista sawmill. Sawmill cash conversation costs per thousand board feet were 8% higher compared to the same period last year primarily due to lower production volumes.

We harvested 1,964,000 cubic metres of logs from our BC coastal operations in 2025, compared to 2,768,000 cubic metres harvested in the same period last year. Harvested volumes decreased primarily due to a strike at LFLP, harvest permit delays and reduced helicopter harvesting availability. Log harvest reductions were partly offset by increased saw log purchases to match log volumes to our sawmill requirements. BC Coastal

saw log purchases were 948,000 cubic metres in 2025, as compared to 750,000 cubic metres in the same period last year.

Timberlands cash operating costs per cubic metre increased 6% compared to the same period last year primarily due to lower harvest volumes, partially offset by lower stumpage expense.

Freight expense was \$58.6 million in 2025 as compared to \$69.1 million in the same period last year. The decrease of 15% was primarily due to lower lumber shipments and lower costs per thousand board feet due to changes in the mix of shipping method based on the destination of sales.

We recorded \$92.8 million of export tax expense in 2025, as compared to \$24.5 million in the same period of 2024. We recorded a non-cash export duty expense of \$59.5 million in 2025 related to the determination of final duty rates from the sixth AR, compared to a \$1.0 million non-cash export duty recovery in the same period last year related to the determination of final duty rates from the fifth AR. Export tax expense increased due to higher duty rates and a stronger average USD to CAD exchange rate, partially offset by lower US-destined shipments.

Corporate and Other

Selling and administration expense was \$43.0 million in 2025 as compared to \$43.0 million in the same period last year. 2025 included a \$1.8 million expense related to share-based compensation, as compared to a \$0.4 million expense in the same period last year.

Restructuring costs were \$1.9 million in 2025 primarily for curtailment costs related to our CVD and APD facilities. In 2024, the Company recognized \$5.5 million for retirement and other benefits, curtailment costs and asset impairments related to our APD facility.

Other income was \$21.6 million in 2025 as compared to \$6.5 million in the same period last year. Other income in 2025 included \$23.9 million in gains from the sale of private timberlands and our APD facility and \$6.9 million in insurance recovery related to a fire at CVD, which was partially offset by \$5.3 million from non-cash foreign exchange losses and \$3.9 million in impairment losses on assets at CVD. Other income in 2024 primarily related to non-cash foreign exchange gains.

Finance costs were \$15.5 million in 2025 as compared to \$6.7 million in the same period last year. Finance costs in 2025 included \$8.6 million of net interest expense related to the determination of final duty rates from the first six ARs, compared to interest revenue of \$4.6 million related to the determination of final duty rates from the first five ARs in the same period last year. Finance cost increases were partially offset by lower interest expense on external debt due to lower average debt balances.

Income Taxes

Income tax recovery was \$31.8 million on a net loss before tax of \$114.2 million for an effective tax rate of 28% in 2025, as compared to a recovery of \$17.6 million on net loss before tax of \$52.1 million for an effective tax rate of 34% in the same period last year. The rate differential results primarily from tax impacts in 2024 arising on the Company's sale of a 34% ownership interest in LFLP.

Net Loss

Net loss was \$82.4 million in 2025 as compared to \$34.5 million for the same period of last year. Results in the 2025 were impacted by a \$59.5 million non-cash export duty expense, \$11.4 million in interest expense related to the change in export duty rates and lower lumber and log shipments, partially offset by gains on sales of non-core assets and increases in lumber and log prices, compared to the same period last year.

Accelerating the Transition to Higher Value Products

The Company continues to make progress on its 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. These activities are 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.

Two Continuous Dry Kilns and One Thermal Kiln

We continue to advance two continuous dry kilns at our Value-Added Division, with site construction ongoing. The first kiln is anticipated to be completed and commissioned in February 2026, with the completion and commissioning of the second kiln anticipated in mid-2026. Site preparation and fabrication is also advancing for a new thermal kiln at our Value-Added Division, with anticipated commissioning in mid-2026. Costs, excluding any contributions from the BC Manufacturing Jobs Fund (“BCMjf”), expended to December 31, 2025 for these kilns total \$17.9 million, relative to a total estimated budget of \$39 million.

BC Manufacturing Jobs Fund

During 2025, the Company accrued \$5.2 million related to the BCMjf from the Province of BC (the “Province”). The Company is eligible to receive reimbursement from the Province of expenditures related to the kilns and other capital projects up to \$7.5 million.

Labour Relations

On January 17, 2025, the Company’s hourly employees that are represented by the USW ratified a new six-year collective bargaining agreement which expires on June 14, 2030.

During the second quarter of 2025, employees represented by the United Steelworkers Local 1-1937 (“USW”) at LFLP commenced a strike. In January 2026, LFLP USW members voted to reject a new collective bargaining agreement. LFLP continues to work to bring a resolution to the strike and both parties agreed to a mediation process which is occurring in February 2026.

Sale of Fee Simple Land and Private Timberlands

On February 10, 2025, the Company completed the sale of 14,294 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 gross proceeds of \$69.2 million. The sale resulted in a gain of \$23.7 million.

Alberni Pacific Division

On February 28, 2025, the Company completed the sale of APD for gross proceeds of \$7.3 million. The sale resulted in a gain of \$0.2 million.

Columbia Vista Sawmill

On June 29, 2025, the Columbia Vista sawmill, located in Vancouver, Washington, sustained extensive damage in a fire, rendering the mill inoperable. As a result of the fire, we recorded impairment charges of \$3.9 million related to property, plant and equipment and inventory that was damaged.

In December 2025, the Company decided to not rebuild on the current site and have commenced a process to sell the land and associated assets of the CVD sawmill site. The sale process is currently ongoing. Demolition of the fire impacted areas of the site has been completed and we are working with the insurance adjuster to finalize available property insurance proceeds. During 2025, we recorded US\$5.0 million (\$6.9 million) of insurance recovery related to the fire as an initial instalment of insurance proceeds.

Operating Curtailments

In the first quarter of 2026, we anticipate operating curtailments at our Saltair sawmill for two weeks and at our Ladysmith sawmill for a minimum of two weeks. In addition, our Chemainus sawmill, which has been curtailed since July 2025, is expected to remain curtailed for the balance of 2026. Curtailments are in response to persistently weak market conditions and factors relating to the B.C. operating environment, including a lack of available economic log supply, ongoing harvesting permitting delays and the strike at LFLP. If there is no near-term resolution to the strike at LFLP, additional operating curtailments may be required at our Saltair and Duke Point sawmills near the end of the first quarter of 2026 due to log supply.

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 2025, Western expensed \$31.5 million of export duties at a combined duty rate of 14.40% on its lumber shipments into the US until July 28, 2025, 27.27% from July 29, 2025 through August 11, 2025 and at 35.16% thereafter as compared to an expense of \$25.5 million of export duties at a combined duty rate of 8.05% until August 18, 2024, and at 14.40% thereafter for the same period last year.

On July 25, 2025, the US Department of Commerce (“DoC”) announced its final anti-dumping duty (“AD”) rates applicable to Western related to the sixth AR of 20.56%, compared to the previous AD rate of 7.66%. On August 8, 2025, the DoC announced its final countervailing duty (“CV”) rates applicable to Western related to the sixth AR of 14.63%, compared to the previous CV rate of 6.74%. On September 11, 2025, the DoC amended the AD rate to 20.53% to correct a ministerial calculation error. Western recorded a non-cash export tax expense of USD\$44.1 million (\$59.5 million), plus accrued interest of approximately USD\$8.2 million (\$11.4 million), in 2025 related to the sixth AR final AD and CV rates (2024: export tax recovery of USD\$0.8 million; CAD\$1.0 million related to the fifth AR final AD and CV rates). Cash deposits accrue at the most recent final AD and CV duty rates.

As at December 31, 2025, Western had \$283 million (USD\$206 million) of cash on deposit with the US Department of Treasury (2024: \$264 million; USD\$184 million) in respect of these softwood lumber duties, of which \$4.4 million (USD \$3.2 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 2023.

At December 31, 2025, including interest of USD\$4.0 million (2024: USD\$10.2 million), the duty receivable of USD\$7.2 million (2024: USD\$57.5 million) was revalued at the year-end exchange rate to CAD\$9.9 million (2024: CAD\$82.7 million).

Including wholesale lumber shipments, our sales from Canadian operations to the US market represented approximately 20% of our total lumber shipments during 2025, as compared to 25% during 2024.

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 US International Trade Commission (“USITC”) determinations may be appealed.

Incremental US Tariff

On September 29, 2025, US President Donald Trump signed an executive order imposing a 10% tariff on imported lumber products through Section 232 of the Trade Expansion Act. The incremental 10% tariff became effective on October 14, 2025. During 2025, we incurred \$1.8 million of export duties related to incremental tariffs.

The potential implementation and duration of any incremental US tariffs is unknown and could have a material impact on our operating earnings and cash flows. We are working with all levels of government 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

In July 2025 'Namgis First Nation ("Namgis") and Western delivered the first-ever draft forest landscape plan and forest operating plan to the Chief Forester of British Columbia covering the portion of 'Namgis territory located in Tree Farm Licence ("TFL") 37 (the "Draft FLP and FOP"). On December 15, 2025, the BC Ministry of Forests ("MFOR") and 'Namgis announced that they signed a joint decision-making agreement under Section 7 of British Columbia's *Declaration on the Rights of Indigenous Peoples Act* ("DRIPA") that advances reconciliation by supporting predictable harvesting and sustainable forestry operations on the north Island (the "Section 7 Agreement"). The Section 7 Agreement will enable the joint establishment of forest landscape plans and approval of associated forest operations plans within the area of TFL 37 that overlaps 'Namgis territory. The Company expects the Draft FLP and FOP to be put through the process described in the Section 7 Agreement and is currently operating consistently with the Draft FLP and FOP. The potential impact the Section 7 Agreement may have on the Company's future operations cannot be determined at this time.

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.

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 2026. 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. On July 3, 2025, the Province finalized its decision on the apportionment of the AAC reduction, reducing the AAC of Forest Licence A19231 by 10% from 303,283 cubic metres to 272,187 cubic metres. No reduction was made to the AAC of Forest Licence A94737.

Financial Position and Liquidity ⁽¹⁾

(millions of Canadian dollars except where otherwise noted)

Selected Cash Flow Items	Q4 2025	Q4 2024	Q3 2025	Annual 2025	Annual 2024
Operating activities					
Net loss	\$ (17.5)	\$ (1.2)	\$ (61.3)	\$ (82.4)	\$ (34.5)
Amortization	12.7	14.3	12.1	50.3	54.7
Impairment of assets	0.1	-	-	3.9	-
Impairment of assets held for sale	-	1.5	-	-	2.8
Loss (gain) on disposal of property, equipment and other assets	-	0.7	0.1	(23.8)	0.6
Income tax (recovery) expense	(4.8)	1.7	(21.8)	(31.8)	(17.6)
Income tax receipts	1.9	-	3.4	5.8	22.5
Share-based compensation, including mark-to-market adjustment	0.1	(0.4)	0.5	1.8	0.4
Export tax rate adjustment	-	-	59.5	59.5	(1.0)
Finance costs	1.7	1.8	12.0	15.5	6.7
Other	0.9	(5.2)	(3.0)	1.6	(10.5)
	(4.9)	13.2	1.5	0.4	24.1
Change in non-cash working capital	(5.7)	11.2	26.5	16.6	(4.0)
Cash provided by (used in) operating activities	(10.6)	24.4	28.0	17.0	20.1
Investing activities					
Additions to property, plant and equipment	(6.2)	(8.2)	(7.2)	(26.5)	(25.1)
Additions to capital logging roads	(1.2)	(2.2)	(1.2)	(4.5)	(8.3)
Net proceeds on disposal of assets	-	-	-	74.7	1.0
Advances and loans	0.2	0.1	0.1	0.4	0.3
Proceeds from disposition of minority interest in subsidiary	-	-	(0.4)	(0.4)	35.1
Cash used in investing activities	(7.2)	(10.3)	(8.7)	43.7	3.0
Financing activities					
Net repayments (drawings) on credit facility	20.6	(4.5)	(14.0)	(47.5)	2.0
Bank indebtedness (repayments)	-	(1.4)	(0.4)	0.4	(0.9)
Interest payments	(1.9)	(2.4)	(1.3)	(6.2)	(8.6)
Debt refinancing costs	-	(0.5)	-	(0.9)	(0.5)
Lease payments	(2.3)	(2.4)	(2.1)	(10.1)	(9.5)
Cash provided by (used in) financing activities	16.4	(11.2)	(17.8)	(64.3)	(17.5)
Increase (decrease) in cash	\$ (1.4)	\$ 2.9	\$ 1.5	\$ (3.6)	\$ 5.6

Summary of Financial Position

Cash and cash equivalents	\$ 4.3	\$ 7.9	\$ 5.7
Current assets	300.6	334.1	281.5
Current liabilities	105.5	127.0	103.9
Bank indebtedness	0.4	-	0.4
Long-term debt	37.6	85.5	16.9
Net debt ⁽²⁾	33.7	77.6	11.6
Equity, excluding non-controlling interest	476.6	558.2	492.1
Total liquidity ⁽³⁾⁽⁶⁾	212.2	144.6	234.2
Financial ratios			
Current assets to current liabilities ⁽⁴⁾	2.85	2.63	2.71
Net debt to capitalization ⁽⁵⁾⁽⁶⁾	7%	12%	2%

(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 less bank indebtedness and available credit under the Company's \$250 million 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. Net debt to capitalization is a ratio defined as net debt divided by capitalization.
 (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 \$17.0 million in 2025, as compared to \$20.1 million in the same period last year. The Company reduced non-cash working capital by \$16.6 million in 2025, compared to an increase of \$4.0 million in the same period last year.

Cash provided by investing activities was \$43.7 million in 2025, as compared to \$3.0 million in the same period last year. In 2025, the Company received \$74.7 million from the sale of non-core assets. In 2024, the Company received \$35.1 million from the sale of a 34% ownership interest in the LFLP.

Cash used in financing activities was \$64.3 million in 2025, as compared to \$17.5 million in the same period last year, primarily due to repayments of our credit facility in 2025.

Liquidity and Capital Resources

Total liquidity was \$212.2 million at December 31, 2025, as compared to \$144.6 million at December 31, 2024 and \$234.2 million at September 30, 2025. As at December 31, 2025, liquidity is comprised of cash and cash equivalents of \$4.3 million, and unused availability under the credit facility of \$208.3 million, less \$0.4 million of bank indebtedness.

On May 1, 2025, the Company's syndicated credit facility (the "Credit Facility") was amended, with the maturity date extended to July 21, 2028 from July 21, 2026. 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 a minimum consolidated net worth test, 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.

On September 16, 2025, the Company entered into a new bilateral letter of credit facility (the "LC Facility") with Royal Bank of Canada. The LC Facility provides for a maximum of USD\$30 million of borrowings for letters of credit to be used as collateral for US customs bonds related to the US softwood lumber dispute. The LC Facility is guaranteed by Export Development Canada. The LC facility is incremental to the Credit Facility. As at December 31, 2025, the Company had USD\$21.0 million (\$28.8 million) in outstanding letters of credit on the LC Facility.

Based on our current forecasts, we expect sufficient liquidity will be available to meet any commitments as well as our other obligations through 2026. The Company was in compliance with its financial covenants as at December 31, 2025.

Summary of Contractual Obligations

The following table summarizes our contractual and legal obligations at December 31, 2025, and our payments due for each of the next five years and thereafter, including estimated interest payments:

(millions of Canadian dollars)	Total	2026	2027	2028	2029	2030	Thereafter
Accounts payable and accrued liabilities ⁽¹⁾	86.6	86.6	-	-	-	-	-
Purchase commitments	21.7	21.7	-	-	-	-	-
Long-term debt	46.7	3.2	3.2	40.3	-	-	-
Lease liabilities	26.6	7.9	4.2	2.4	1.1	0.9	10.1
Reforestation obligation	22.3	6.8	3.9	2.5	1.7	1.3	6.1
Defined benefit pension plan funding payments	4.5	0.5	0.5	0.5	0.5	0.5	2.0
Other ⁽¹⁾	11.0	2.3	3.1	1.9	0.2	-	3.5
	\$ 219.4	\$ 129.0	\$ 14.9	\$ 47.6	\$ 3.5	\$ 2.7	\$ 21.7

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

Share consolidation

On July 1, 2025, the Company announced a share consolidation on the basis of one post-consolidation common share for every 30 pre-consolidation common shares. On July 28, 2025, the share consolidation became effective. As a result of the share consolidation, all per share information has been retrospectively adjusted for all periods presented.

Capital Expenditures

We currently anticipate 2026 capital expenditure spending of between \$45 to \$50 million, which includes approximately \$16 million of planned spending on two previously announced continuous dry kilns and one thermal kiln. The Company will continue to review capital expenditure spending with a near-term priority of maintaining a strong balance sheet and financial flexibility.

Outlook

Lumber markets remain challenged heading into 2026. Economic uncertainty and a slowing US housing market led to reduced lumber demand through 2025 in North America. Customer expectations are there will not be significant market improvements in the first half of 2026. Operating curtailments from lumber producers over the last half of 2025 are expected to decrease available supply at the end of the first quarter of 2026 and could lead to upward price pressure as demand improves. Demand in Western Red Cedar product lines remain slow following the trajectory of other building products.

In Japan, the Yen has further weakened against the US dollar and housing starts continue to be below 800,000 new starts on an annualized basis, reflecting ongoing shifts in demographics. Western continues to be focused on the competitiveness of Hemlock and Douglas fir to maintain current market share. Market demand for the first quarter of 2026 is lower than anticipated, with demand for Douglas fir squares and Hemlock squares down compared to the fourth quarter of 2025. The overall construction and housing market decline in China has continued to weigh on lumber demand in the Chinese market. Customers are managing inventory levels ahead of the Lunar New Year in mid-February when most manufacturing operations will close for the month. Lumber supply is rising from increased North American volumes and US logs are re-entering the market after China lifted its suspension on US log imports in early November.

Summary of Selected Annual Information ⁽¹⁾

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

	2025	2024	2023
Total revenue	\$ 986.5	\$ 1,063.9	\$ 1,017.5
Operating loss prior to restructuring and other items	(118.4)	(46.4)	(83.4)
Net loss	(82.4)	(34.5)	(70.1)
Adjusted EBITDA ⁽²⁾	\$ (68.2)	\$ 8.9	\$ (29.9)
Adjusted EBITDA margin ⁽²⁾	(7%)	1%	(3%)
Diluted earnings (loss), dollars per share	\$ (7.56)	\$ (2.88)	\$ (6.49)
Cash dividends, dollars per share	-	-	1.125
Total assets	\$ 738.0	\$ 915.5	\$ 915.4
Net debt ⁽³⁾	33.7	77.6	82.4

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

(2) 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.

(3) Net debt, 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 and total liquidity, 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 2025	Q4 2024	Q3 2025	Annual 2025	Annual 2024	Annual 2023
Net income (loss)	\$ (17.5)	\$ (1.2)	\$ (61.3)	\$ (82.4)	\$ (34.5)	\$ (70.1)
Add:						
Amortization	12.7	14.3	12.1	50.3	54.7	53.7
Changes in fair value of biological assets	0.1	0.6	-	-	0.7	(0.2)
Operating restructuring items	1.1	2.1	-	1.9	5.5	7.5
Other expense (income)	0.6	(4.8)	(6.9)	(21.6)	(6.5)	1.2
Finance costs	1.7	1.8	12.0	15.5	6.7	3.0
Income tax (recovery) expense	(4.8)	1.7	(21.8)	(31.8)	(17.6)	(25.0)
Adjusted EBITDA	\$ (6.2)	\$ 14.4	\$ (65.9)	\$ (68.2)	\$ 8.9	\$ (29.9)
Adjusted EBITDA margin						
Total revenue	\$ 201.9	\$ 273.2	\$ 233.0	\$ 986.5	\$ 1,063.9	\$ 1,017.5
Adjusted EBITDA	(6.2)	14.4	(65.9)	(68.2)	8.9	(29.9)
Adjusted EBITDA margin	(3%)	5%	(28%)	(7%)	1%	(3%)
Net debt to capitalization				Dec. 31, 2025	Dec. 31, 2024	Dec. 31, 2023
Net debt				\$ 37.6	\$ 85.5	\$ 83.8
Total debt				0.4	-	0.9
Bank indebtedness				(4.3)	(7.9)	(2.3)
Cash and cash equivalents				\$ 33.7	\$ 77.6	\$ 82.4
Capitalization						
Net debt				\$ 33.7	\$ 77.6	\$ 82.4
Total equity attributable to equity shareholders of the Company				476.6	558.2	565.0
				\$ 510.3	\$ 635.8	\$ 647.4
Net debt to capitalization				7%	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, 2025	Dec. 31, 2024	Dec. 31, 2023
Cash and cash equivalents	\$ 4.3	\$ 7.9	\$ 2.3
Available credit facility ⁽¹⁾	250.0	250.0	250.0
Bank indebtedness	(0.4)	-	(0.9)
Credit facility drawings	(38.5)	(86.0)	(84.0)
Outstanding letters of credit included in line utilization	(3.2)	(27.3)	(19.6)
	\$ 212.2	\$ 144.6	\$ 147.8

(1) Maximum borrowing amount, with advances in excess of \$215 million subject to a leverage metric. Borrowings are also subject to certain financial covenants, including a maximum debt to total capitalization ratio and a minimum consolidated net worth test.

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

Critical Accounting Estimates

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. For impairment testing, assets that cannot be tested individually are grouped together into a cash generating unit ("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 an after-tax discount rate that reflects current market assessments of time value of money and risks specific to the CGU. Significant assumptions in a discounted cash flow include future sales volume, lumber prices, fibre and production costs, softwood lumber duty and tariff rates, trend year earnings before interest, taxes, depreciation and amortization ("EBITDA") and the discount rate.

The Company continues to monitor the impacts of external factors including market prices, access to economic fibre and the duration and magnitude of trade disputes. Changes in the near and long-term outlook of these and other factors could impact the Company's estimated future operating cash flow and the valuation of its net assets.

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.

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.

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.

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 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.

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.

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.

Accounting Policies and Standards

Several new and amended IFRS standards are not yet effective for the year ended December 31, 2025 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 2025, 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, 2025, the Company had forward contracts in place to sell an aggregate USD \$12.0 million (2024: USD \$12.0 million). A related asset of negligible amount (2024: negligible amount) was recognized in trade and other receivables at December 31, 2025. The Company recognized \$0.7 million in gains on contracts that matured during the year (2024: \$1.9 million loss), 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, 2025, surety performance and payment bonds aggregated \$47.3 million (December 31, 2024: \$48.2 million), of which \$28.8 million (December 31, 2024: \$24.5 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:

	Years ended December 31,	
	2025	2024
Salaries, directors' fees and short-term benefits	\$ 6.2	\$ 6.3
Post-employment benefits	0.7	0.8
Share-based compensation, including mark-to-market adjustment	1.0	0.3
	\$ 7.9	\$ 7.4

The increase in related party share-based compensation expense in 2025 compared to 2024 was primarily attributable to changes in the Company's share price in 2025 compared to 2024.

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 has not exported any logs since 2021 and does not expect to export logs in 2026.

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. In December 2025, the British Columbia Court of Appeal ruled that DRIPA incorporates UNDRIP into provincial law, with immediate effect, that Indigenous peoples may raise their UNDRIP rights in consultation with the Province and that courts can adjudicate the consistency of BC laws with UNDRIP. The Government of Canada has also pledged to implement UNDRIP and the Calls to Action of the Truth and Reconciliation Commission. As a result of the foregoing, significant expectation has been raised among Aboriginal groups in BC and across the country as to the impact that DRIPA 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 DRIPA and its interpretation on provincial law and the implementation of these commitments by the Government of Canada may have 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. The Province defines fully manufactured in relation to a schedule of manufacturing processes and assesses a fee-in-lieu of manufacturing upon issuing an export permit for partially or unmanufactured products.
- In November 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.
- In November 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.
- In November 2021, the *Forest and Range Practices Act* was amended to bring 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 Province's Chief Forester.
- In January 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.
- In November 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.
- In July 2025, the Province and the First Nations Leadership Council announced that it is moving forward to the next stage of consultation and engagement on modernizing the *Heritage Conservation Act*. The *Heritage Conservation Act* regulates the protection, management and conservation of cultural and heritage sites in BC. In January 2026, the Province announced that it would not be introducing proposed amendments to the *Heritage Conservation Act* in the Spring legislative session as planned, in order to provide time for additional engagement. An updated timeline on the review process has not been provided.

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.

Approximately 92% of Western’s and its affiliates 5.6 million 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)).

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. An AAC determination for TFL 19 is still outstanding, but is expected to occur in 2026. The AAC determination process has commenced in TFL 6, TFL 64 and TFL 39. A Management Plan for these tenures has not yet been finalized and submitted to MFOR and we cannot predict the outcome of these determinations at this time. 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.

In the first quarter of 2025, the Province announced a review of the British Columbia Timber Sales ("BCTS") program. The review is led by a panel of three experts, with a stated intent of "strengthening operations and ensuring BCTS continues to meet the evolving needs of the forest industry". The Company sources a portion of its saw log purchases from third party BCTS volume. Furthermore, stumpage rates in BC are determined based on a timber pricing system known as the Market Pricing System, which uses certain information from the BCTS system to establish the market value of timber. In July 2025, the task force made recommendations to the Minister of Forests as a result of the BCTS review, several of which the MFOR has began implementing. The recommendations the MFOR has commenced implementing to date do not appear to materially impact our operations; however, as these recommendations continue to be reviewed by the MFOR and a strategic approach to implementing the recommendations is still underway, the potential impact the review may have on our operations cannot be determined at this time.

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.

In August 2025, the British Columbia Supreme Court recognized Aboriginal title for the Cowichan Tribes and other First Nations to lands in Richmond, BC, including fee simple private land, and fishing rights on the Fraser River. The decision is currently being appealed by the Province, the City of Richmond and the Musqueam Indian Band. While Western's lands and tenures do not overlap with the lands subject to this claim, the Cowichan Tribes decision may have implication on future forestry and land development decisions going forward. 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's 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 been resolved or dismissed.
- 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. On September 4, 2025, the Ehlettesaht First Nation ("ECFN") filed an amended notice of civil claim, against the Government of Canada and the Province of British Columbia seeking a declaration of Aboriginal title. The area in which ECFN claims Aboriginal title encompasses a portion of the harvesting area of the Company's Forest Licence A19231 and TFL 19. The MMFN and ECFN claims have not yet been finally resolved or dismissed and the potential impact of these claims 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. 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 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.

Softwood Lumber Dispute

On November 25, 2016, the US Lumber Coalition petitioned the DoC and the USITC seeking CV and AD on Canadian softwood lumber shipments to the US. On January 6, 2017, the USITC 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 USITC, 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.

Under US law, the DoC and 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 USITC decision to maintain duties on Canadian softwood lumber products, under Chapter 10 of the Canada-United States-Mexico Agreement.

On February 21, 2025, the DoC initiated its seventh AR of CV and AD for shipments in 2024, with expected preliminary results released in April 2026.

On July 21, 2025, a binational Canada-United States-Mexico Agreement (“CUSMA”) Chapter 10 Panel (the “Panel”) issued its initial decision with respect to Canada’s challenge of the DoC’s final results of the first AR (“AR1”) of the AD order on Canadian softwood lumber products. AR1 relates to softwood lumber exports from the period April 28, 2017 through December 31, 2018. The Panel determined that certain key aspects of the DoC’s final AR1 AD results were inconsistent with US law and directed the DoC to review those aspects of its decision. On September 17, 2025, the Panel dismissed the case at the joint request of the Canadian and US parties.

On July 25, 2025, the DoC announced its final AD rates applicable to Western related to the sixth AR and on August 8, 2025, the DoC announced its final CV rates. On September 11, 2025, the DoC amended the AD rate to correct a ministerial calculation error. Effective August 11, 2025, cash deposits will continue at the revised combined duty rate of 35.16% until publication of final rates of the seventh 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 2024 and 2025:

Lumber shipment date	Aug. 11, 2025 Onward	July 29, 2025 through	Aug. 19, 2024 through	Aug. 1, 2023 through
		Aug. 11, 2025	July 28, 2025	Aug. 18, 2024
Cash deposit rate				
CV	14.63%	6.74%	6.74%	1.79%
AD	20.53%	20.53%	7.66%	6.26%
Combined	35.16%	27.27%	14.40%	8.05%
Lumber shipment year		AR6 2023 Final	AR5 2022 Final	AR4 2021 Final
Duty rate				
CV		14.63%	6.74%	1.79%
AD		20.53%	7.66%	6.26%
Combined		35.16%	14.40%	8.05%

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 September 29, 2025, US President Donald Trump signed an executive order imposing a 10% tariff on imported lumber products through Section 232 of the Trade Expansion Act. The incremental 10% tariff became effective on October 14, 2025.

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, duties 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.

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. 863 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.

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.

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.

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.

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 require 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.

Our business operations are located on the BC coast, the US Pacific Northwest and Japan, all of 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.

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, 2025.

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, 2025.

Outstanding Share Data

As of February 10, 2026, there were 10,558,183 Common Shares of the Company issued and outstanding.

We have reserved 1,000,000 of our Shares for issuance upon the exercise of options granted under our incentive stock option plan. During the year ended December 31, 2025, no options were granted, exercised, or forfeited and 38,152 options expired. As of February 10, 2026, 303,138 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)

	2025				2024						
	2025	Q4	Q3	Q2	Q1	2024	Q4	Q3	Q2	Q1	
Avg. exchange rate – USD to CAD	1.397	1.395	1.377	1.385	1.435	1.370	1.399	1.364	1.368	1.348	
Avg. exchange rate – CAD to USD	0.716	0.717	0.726	0.722	0.697	0.730	0.715	0.733	0.731	0.742	
Financial Performance											
Revenue											
Lumber	\$ 764.5	\$ 154.9	\$ 181.1	\$ 218.2	\$ 210.2	\$ 817.1	\$ 214.3	\$ 189.9	\$ 235.3	\$ 177.6	
Logs	157.6	36.8	38.3	49.0	33.5	188.0	46.5	39.9	56.5	45.1	
By-products	38.4	7.4	8.5	11.7	10.9	41.7	9.7	9.1	12.4	10.5	
Forestry services and other	26.0	2.8	5.1	10.2	7.9	17.1	2.7	2.8	5.3	6.3	
Total revenue	\$ 986.5	\$ 201.9	\$ 233.0	\$ 289.1	\$ 262.5	\$ 1,063.9	\$ 273.2	\$ 241.7	\$ 309.5	\$ 239.5	
Net (loss) income	\$ (82.4)	\$ (17.5)	\$ (61.3)	\$ (17.4)	\$ 13.8	\$ (34.5)	\$ (1.2)	\$ (19.6)	\$ (5.7)	\$ (8.0)	
Earnings (loss) per share, basic and diluted	\$ (7.56)	\$ (1.55)	\$ (5.71)	\$ (1.62)	\$ 1.33	\$ (2.88)	\$ (0.05)	\$ (1.71)	\$ (0.40)	\$ (0.73)	
Operating Statistics											
Lumber ⁽¹⁾⁽²⁾											
Production	mmfbm	479	94	107	144	134	558	135	127	151	145
Shipments	mmfbm	522	108	129	149	137	588	146	138	173	131
Price	\$/mmfbm	\$ 1,463	\$ 1,437	\$ 1,409	\$ 1,464	\$ 1,533	\$ 1,390	\$ 1,467	\$ 1,378	\$ 1,363	\$ 1,351
Logs ⁽³⁾											
Net production	000 m ³	1,964	491	410	598	465	2,768	673	659	820	617
Saw log purchases	000 m ³	948	218	214	299	216	750	234	215	172	129
Log availability	000 m ³	2,912	709	624	897	681	3,518	906	874	992	746
Shipments	000 m ³	1,001	235	207	329	231	1,378	355	347	339	337
Price ⁽⁴⁾	\$/m ³	\$ 143	\$ 144	\$ 160	\$ 139	\$ 134	\$ 129	\$ 121	\$ 113	\$ 155	\$ 129

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 2024 and 2025, certain BC manufacturing facilities were curtailed and log production was lowered to match fibre requirements in our manufacturing facilities.

WESTERN

Forest Products

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 10, 2026, 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 10, 2026



KPMG LLP
777 Dunsmuir Street, 11th floor
Vancouver BC V7Y 1K3
Canada
Tel 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, 2025 and December 31, 2024
- 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, 2025 and December 31, 2024, 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, 2025. 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 matters described below to be the key audit matters 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 \$181.8 million, of which \$162.2 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 following are the primary procedures we performed to address this key audit matter:

- We evaluated the design and tested the operating effectiveness over 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 near year end and to market price publications by third party industry analysts.

Assessment of the recoverable amount of the integrated forestry operations Cash Generating Unit ('CGU')

Description of the matter

We draw attention to Note 3(a) to the financial statements. The Entity identified indicators of impairment for its integrated forestry operations CGU and performed an impairment test to estimate its recoverable amount. As the recoverable amount exceeded the carrying value of the CGU, the Entity did not record an impairment loss for the year ended December 31, 2025. The recoverable amount is calculated based on the higher of its fair value less costs of disposal and its value in use. Significant assumptions used in determining value in use included future sales volumes, lumber prices, fibre and production costs, softwood lumber duty and tariff rates, trend year earnings before interest, taxes, depreciation and amortization (EBITDA), and the discount rate.

Why the matter is a key audit matter

We identified the evaluation of the recoverable amount of the integrated forestry operations CGU as a key audit matter. The value in use was sensitive to changes in certain significant assumptions. Significant auditor judgment was required in evaluating the results of our audit procedures. Further, specialized skills and knowledge were required in evaluating the discount rate assumptions.

How the matter was addressed in the audit

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

- We compared the Entity's future sales volumes and fibre and production costs to actual results over the past five years to evaluate the appropriateness of the Entity's predicted sales volume and fibre and production costs assumptions. We considered changes in conditions and events affecting the Entity to assess the adjustments or lack of adjustments made by the Entity in arriving at the assumptions.
- We evaluated the Entity's future lumber price assumptions by comparing those assumptions to expected commodity prices in third party industry pricing publications and to the Entity's historical realized prices over the past ten years.
- We compared the Entity's forecast trend year EBITDA to actual results over the past ten years to evaluate the appropriateness of the Entity's predicted trend year EBITDA assumption.
- We evaluated the Entity's forecast softwood lumber duty and tariff rates by comparing them to current and historical duty and tariff rates and considered changes in conditions and events affecting the Entity to assess the adjustments or lack of adjustments made by the Entity in arriving at the forecast softwood lumber duty and tariff rates.
- We involved a valuation professional with specialized skills and knowledge, who assisted in evaluating the discount rate assumption used in the estimated value in use by comparing them against a discount rate range that was independently developed using publicly available market data for comparable entities.

Other Information

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

- the information included in Management's Discussion and Analysis.
- the information, other than the financial statements and the auditor's report thereon, included in the "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 and the information included in the "Annual Report", as at the date of this auditor's 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 auditor's 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 Andrew James.

Vancouver, Canada

February 10, 2026

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

	December 31, 2025	December 31, 2024
Assets		
Current assets:		
Cash and cash equivalents	\$ 4.3	\$ 7.9
Trade and other receivables	66.1	60.1
Inventory ^(Note 4)	181.8	217.1
Prepaid expenses and other assets	28.0	35.0
Assets held for sale ^(Note 5)	11.5	7.4
Income taxes receivable ^(Note 15)	8.9	6.6
	<u>300.6</u>	<u>334.1</u>
Non-current assets:		
Property, plant and equipment ^(Note 6)	314.6	349.6
Timber licenses ^(Note 7)	84.2	88.2
Biological assets ^(Note 8)	15.8	48.6
Other assets ^(Note 9)	12.8	87.4
Goodwill ^(Note 10)	7.1	7.5
Deferred income tax assets ^(Note 15)	2.9	0.1
	<u>\$ 738.0</u>	<u>\$ 915.5</u>
Liabilities and Equity		
Current liabilities:		
Bank indebtedness	\$ 0.4	\$ -
Accounts payable and accrued liabilities	88.9	110.7
Liabilities directly associated with assets held for sale ^(Note 5)	-	0.3
Income taxes payable ^(Note 15)	0.2	-
Lease liabilities ^(Note 12)	7.3	6.7
Reforestation obligation ^(Note 13)	6.7	7.3
Deferred revenue ^(Notes 21, 24)	2.0	2.0
	<u>105.5</u>	<u>127.0</u>
Non-current liabilities:		
Long-term debt ^(Note 11)	37.6	85.5
Lease liabilities ^(Note 12)	13.8	12.8
Reforestation obligation ^(Note 13)	13.6	14.6
Other liabilities ^(Note 14)	10.6	11.8
Deferred revenue ^(Notes 21, 24)	38.4	40.5
Deferred income tax liabilities ^(Note 15)	36.4	57.0
	<u>255.9</u>	<u>349.2</u>
Equity:		
Share capital ^(Note 16)	405.4	405.4
Contributed surplus	8.9	8.9
Translation reserve	4.8	8.1
Retained earnings	57.5	135.8
Total equity attributable to equity shareholders of the Company	<u>476.6</u>	<u>558.2</u>
Non-controlling interest ^(Note 17)	5.5	8.1
	<u>482.1</u>	<u>566.3</u>
	<u><u>\$ 738.0</u></u>	<u><u>\$ 915.5</u></u>

Commitments and contingencies ^(Note 21)

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,	
	2025	2024
Revenue ^(Note 24)	\$ 986.5	\$ 1,063.9
Costs and expenses:		
Cost of goods sold	910.5	973.7
Freight	58.6	69.1
Export tax ^{(Note 21(a, b))}	92.8	24.5
Selling and administration	43.0	43.0
	<u>1,104.9</u>	<u>1,110.3</u>
Operating loss prior to restructuring and other items	(118.4)	(46.4)
Operating restructuring items ^(Note 25)	(1.9)	(5.5)
Other income ^(Note 26)	21.6	6.5
Operating loss	(98.7)	(45.4)
Finance costs ^(Note 27)	(15.5)	(6.7)
Loss before income taxes	(114.2)	(52.1)
Income tax recovery ^(Note 15)		
Current	(7.8)	(5.8)
Deferred	(24.0)	(11.8)
	<u>(31.8)</u>	<u>(17.6)</u>
Net loss	(82.4)	(34.5)
Net loss attributable to equity shareholders of the Company	(79.8)	(30.4)
Net loss attributable to non-controlling interest	(2.6)	(4.1)
	<u>(82.4)</u>	<u>(34.5)</u>
Other comprehensive loss		
Items that will not be reclassified to profit or loss:		
Employee future benefits actuarial gain (loss) ^(Note 22)	2.5	(1.2)
Income tax (expense) recovery ^(Note 15)	(0.7)	0.3
Total items that will not be reclassified to profit or loss	<u>1.8</u>	<u>(0.9)</u>
Items that may be reclassified subsequently to profit or loss:		
Foreign currency translation differences for foreign operations	<u>(3.3)</u>	<u>6.2</u>
Total comprehensive loss	\$ (83.9)	\$ (29.2)
Loss per share (in dollars) ^(Note 19)		
Basic and diluted	\$ (7.56)	\$ (2.88)

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						Non-controlling interest	Total equity
	Number ⁽¹⁾	Amount	Contributed surplus	Translation reserve	Retained earnings			
Balance at December 31, 2023	10,558	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	-	-	-	-	(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 at December 31, 2024	10,558	405.4	8.9	8.1	135.8	8.1	566.3	
Net loss	-	-	-	-	(79.8)	(2.6)	(82.4)	
Other comprehensive income (loss):								
Employee future benefits actuarial gain	-	-	-	-	2.5	-	2.5	
Income tax expense on actuarial loss ^(Note 15)	-	-	-	-	(0.7)	-	(0.7)	
Foreign currency translation differences for foreign operations	-	-	-	(3.3)	-	-	(3.3)	
Total comprehensive loss	-	-	-	(3.3)	(78.0)	(2.6)	(83.9)	
Non-controlling interest	-	-	-	-	(0.3)	-	(0.3)	
Total transactions with owners, recorded directly in equity	-	-	-	-	(0.3)	-	(0.3)	
Balance at December 31, 2025	10,558	\$ 405.4	\$ 8.9	\$ 4.8	\$ 57.5	\$ 5.5	\$ 482.1	

(1) Number of shares presented in thousands

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,	
	2025	2024
Cash provided by (used in):		
Operating activities		
Net loss	\$ (82.4)	\$ (34.5)
Items not involving cash:		
Amortization of plant and equipment ^(Note 6)	46.3	50.6
Amortization of timber licenses ^(Note 7)	4.0	4.1
Asset impairments ^(Notes 5, 25)	3.9	2.8
(Gain) loss on disposal of assets ^(Notes 5, 6, 8)	(23.8)	0.6
Amortization of deferred revenue ^{(Note 24(b))}	(2.1)	(2.0)
Finance costs ^(Note 27)	15.5	6.7
Income tax recovery ^(Note 15)	(31.8)	(17.6)
Change in fair value of biological assets ^(Note 8)	-	0.7
Change in reforestation obligation ^(Note 13)	(2.0)	(0.7)
Share-based compensation, including mark-to-market adjustment ^(Note 18)	1.8	0.4
Change in employee future benefits obligation ^(Note 22)	(0.6)	(1.2)
Export tax rate adjustment ^(Note 21)	59.5	(1.0)
Foreign exchange and other	6.3	(7.3)
Income taxes received	5.8	22.5
	0.4	24.1
Changes in non-cash working capital items:		
Trade and other receivables	(4.1)	(6.8)
Inventory	34.3	(3.6)
Prepaid expenses and other assets	7.6	(0.6)
Accounts payable and accrued liabilities	(21.2)	7.0
	16.6	(4.0)
	17.0	20.1
Investing activities		
Additions to property, plant and equipment ^(Note 6)	(31.0)	(33.4)
Net proceeds from private timberlands sale ^(Note 26)	67.3	-
Net proceeds from sale of assets held for sale ^(Note 5)	7.1	-
Net proceeds of property, equipment and other disposals	0.3	1.0
Advances and loans	0.4	0.3
Net proceeds on disposition of minority interest in subsidiary ^(Note 17)	(0.4)	35.1
	43.7	3.0
Financing activities		
Net (repayments) drawings on credit facility ^(Note 11)	(47.5)	2.0
Bank indebtedness	0.4	(0.9)
Debt refinancing costs	(0.9)	(0.5)
Interest payments	(6.2)	(8.6)
Lease payments ^(Note 12)	(10.1)	(9.5)
	(64.3)	(17.5)
Increase (decrease) in cash and cash equivalents	(3.6)	5.6
Cash and cash equivalents, beginning of the year	7.9	2.3
Cash and cash equivalents, December 31	\$ 4.3	\$ 7.9

Supplementary information on non-cash transactions:

The Company had no non-cash transactions in 2025 or 2024 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, 2025 and 2024

(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, 2025 and 2024 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.

The consolidated financial statements were authorized for issue by the Board of Directors on February 10, 2026.

(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, 2025 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 Western Forest Products Engineered LLC.

Western Forest Products Inc.

Notes to the Consolidated Financial Statements

Years ended December 31, 2025 and 2024

(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, 2025 and 2024

(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 3	Measurement of the recoverable amount of non-financial assets utilizing the present value of projected cash flows generated from the continuing use of the related CGUs: key assumptions about likelihood and quantum of cash flows and discount rate used;
Note 4	Measurement of net realizable value of inventories;
Note 8	Measurement of fair value less costs to sell of standing timber (biological assets);
Note 12	Measurement of the present value of lease liabilities: key assumptions about 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, 2025 and 2024

(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 an after-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.

As at December 31, 2025, the Company considered various internal and external factors and concluded that an impairment indicator existed for the integrated forestry operations CGU. For the purposes of impairment testing, the Company's two CGU's are comprised of glulam manufacturing (note 10) and integrated forestry operations. The recoverable amount of the Company's net assets was based on an assessment of value in use using a five-year discounted cash flow model with a trend year following the five years. The discounted cash flow model was forecasted based on past experience and actual operating results, as well as management's assessment of future trends in the lumber industry, based on both external and internal sources of data. Significant assumptions included future sales volume, lumber prices, fibre and production costs, softwood lumber duty and tariff rates, trend year earnings before interest, taxes, depreciation and amortization ("EBITDA") and the discount rate. Other assumptions included applicable foreign exchange rates and future capital investment required to maintain the current operating condition of assets. Using an after-tax discount rate of 12.0%, the estimated recoverable amount of the CGUs exceeded their respective carrying amounts and as such, no impairment loss was recognized for the years ended December 31, 2025 and 2024. Assuming each key assumption changes in isolation, an impairment loss in the integrated forestry operations would be recognized if the after-tax discount rate increased above 14.5% or if EBITDA decreased by 6% (average of \$7.3 million per year) over the forecast period and trend year, with all other assumptions held constant.

The Company continues to monitor the impacts of external factors including market prices, access to economic fibre and the duration and magnitude of trade disputes. Changes in the near and long-term outlook of these and other factors could impact the Company's estimated future operating cash flow and the valuation of its net assets.

Western Forest Products Inc.

Notes to the Consolidated Financial Statements

Years ended December 31, 2025 and 2024

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

3. Material accounting policies (continued)

(b) 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.

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, 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, 2025				December 31, 2024			
	Gross carrying value		Provisions		Lower of cost and net realizable value		Lower of cost and net realizable value	
Logs	\$ 120.8	\$ (12.9)	\$ 107.9		\$ 138.0	\$ (13.2)	\$ 124.8	
Lumber	65.2	(10.9)	54.3		82.8	(11.3)	71.5	
Supplies and other	19.6	-	19.6		20.8	-	20.8	
	\$ 205.6	\$ (23.8)	\$ 181.8		\$ 241.6	\$ (24.5)	\$ 217.1	

Western Forest Products Inc.

Notes to the Consolidated Financial Statements

Years ended December 31, 2025 and 2024

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

4. Inventory (continued)

Supporting information (continued)

The carrying amount of inventory recorded at net realizable value was \$60.2 million at December 31, 2025 (2024: \$61.9 million), with the remaining inventory recorded at cost.

For the year ended December 31, 2025, the Company recognized a decrease in the provision for write-down to net realizable value of \$0.7 million (2024: \$14.8 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

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

	December 31, 2025	December 31, 2024
Supplies and other	\$ 0.6	\$ -
Property, plant and equipment	10.9	7.4
Assets held for sale	<u>\$ 11.5</u>	<u>\$ 7.4</u>
Lease liabilities directly associated with assets held for sale	\$ -	\$ 0.3

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.

On April 16, 2024, the Company announced the indefinite curtailment of its Alberni Pacific Division ("APD") site. In 2025, the Company recorded incremental curtailment costs of \$0.2 million (2024: \$0.9 million) in operating restructuring items related to APD. In 2024, the Company recorded related severance of \$2.2 million, impairment charges of \$2.8 million in respect of supplies and other inventories and property, plant and equipment.

On February 28, 2025, the Company completed its sale of its Alberni Pacific Division ("APD"), for net proceeds of \$7.1 million. APD had been recorded in assets held for sale as at December 31, 2024. The Company recognized a gain of \$0.2 million in the year ended December 31, 2025 recorded in other income in the statement of comprehensive loss related to the sale.

On June 29, 2025, the Company's Columbia Vista Division ("CVD") sawmill site, located in Vancouver, Washington, sustained extensive damage in a fire, rendering the mill inoperable. In December 2025, the Company decided to sell the land and certain assets of the CVD sawmill site. The sale process is currently ongoing. As a result of the fire and expected sale price, the Company recorded impairment charges of \$3.9 million, \$3.2 million related to property, plant and equipment and \$0.7 million related to inventory. In 2025, the Company recorded incremental curtailment costs of \$0.9 million in operating restructuring items related to CVD.

Western Forest Products Inc.

Notes to the Consolidated Financial Statements

Years ended December 31, 2025 and 2024

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

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, 2025 and 2024

(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, 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
Additions	-	-	25.7	3.6	29.3	11.7	41.0
Reclassification to asset held for sale ^(Note 5)	(6.4)	(6.4)	(0.2)	-	(13.0)	-	(13.0)
Disposals	(9.7)	(9.0)	-	(9.5)	(28.2)	(7.6)	(35.8)
Transfers	-	21.3	(22.3)	1.0	-	-	-
Effect of movements in exchange rates	(0.7)	(3.5)	(0.4)	-	(4.6)	(0.4)	(5.0)
Balance as at December 31, 2025	\$ 41.4	\$ 512.0	\$ 20.9	\$ 259.6	\$ 833.9	\$ 54.4	\$ 888.3
Accumulated amortization							
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
Amortization	31.5			6.8	38.3	8.0	46.3
Reclassification to asset held for sale ^(Note 5)	(2.1)			-	(2.1)	-	(2.1)
Impairments ^(Note 5)	3.2				3.2	-	3.2
Disposals	(9.0)			(8.4)	(17.4)	(6.5)	(23.9)
Effect of movements in exchange rates	(1.1)			-	(1.1)	(0.2)	(1.3)
Balance as at December 31, 2025	\$ 310.6			\$ 230.4	\$ 541.0	\$ 32.7	\$ 573.7
Carrying amounts							
As at December 31, 2024	\$ 58.2	\$ 221.5	\$ 18.1	\$ 32.5	\$ 330.3	\$ 19.3	\$ 349.6
As at December 31, 2025	\$ 41.4	\$ 201.4	\$ 20.9	\$ 29.2	\$ 292.9	\$ 21.7	\$ 314.6

Western Forest Products Inc.

Notes to the Consolidated Financial Statements

Years ended December 31, 2025 and 2024

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

6. Property, plant and equipment (continued)

Supporting information (continued)

On February 28, 2025, the Company and the Province of British Columbia ("the Province"), through the BC Manufacturing Jobs Fund, entered into an agreement to reimburse eligible expenditures up to a maximum of \$7.5 million related to construction of new kilns and other capital projects. During the year ended December 31, 2025, the Company accrued \$5.2 million related to eligible expenditures incurred, which has been deducted from the carrying amount of the assets in construction, \$1.7 million of which is included in accounts receivable in the consolidated statement of financial position.

7. Timber licences

Accounting policy

Crown timber tenures are renewable contractual arrangements with 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.

Supporting information

	December 31, 2025	December 31, 2024
Cost		
Balance at beginning of year and December 31	\$ 169.4	\$ 169.4
Accumulated amortization		
Balance at beginning of year	\$ 81.2	\$ 77.1
Amortization	4.0	4.1
Balance at December 31	\$ 85.2	\$ 81.2
Carrying amount at December 31	\$ 84.2	\$ 88.2

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 2025.

Supporting information

Reconciliation of carrying amount

	Years ended December 31,	
	2025	2024
Carrying value at beginning of year	\$ 48.6	\$ 49.3
Change in fair value due to growth and pricing	0.2	0.3
Harvested timber transferred to inventory	(0.1)	(1.0)
Fair value adjustment	(0.1)	-
Disposals ^(Note 26)	(32.8)	-
Carrying value at December 31	\$ 15.8	\$ 48.6

Western Forest Products Inc.

Notes to the Consolidated Financial Statements

Years ended December 31, 2025 and 2024

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

8. Biological assets (continued)

Supporting information (continued)

Reconciliation of carrying amount (continued)

At December 31, 2025, private timberlands comprised an area of approximately 8,537 hectares (2024: 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, 2025, the Company harvested and scaled 17,824 cubic metres ("m³") of logs from its private timberlands, which had a fair value less costs to sell of \$141 per m³ at the date of harvest (2024: 21,979 m³ and \$135 per m³, respectively).

9. Other assets

	December 31, 2025	December 31, 2024
Export tax receivable and related interest ^(Note 21)	\$ 9.9	\$ 82.7
Investments and advances	2.6	4.0
Note receivable	2.6	2.6
Long-term loans	0.3	0.7
Other	0.3	0.3
	15.7	90.3
Less current portion	2.9	2.9
	\$ 12.8	\$ 87.4

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).

For the purpose of impairment testing at December 31, 2025, 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. An after-tax discount rate of 12% was applied in determining the recoverable amount of the CGU.

The recoverable amount as at December 31, 2025 was determined to be higher than the related carrying value, with no impairment of goodwill required.

Supporting information

	December 31, 2025	December 31, 2024
Cost		
Opening balance	\$ 7.5	\$ 6.9
Effective of movement in exchange rates	(0.4)	0.6
Balance at December 31	\$ 7.1	\$ 7.5

Western Forest Products Inc.

Notes to the Consolidated Financial Statements

Years ended December 31, 2025 and 2024

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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, 2025	December 31, 2024
Available Credit Facility	\$ 250.0	\$ 250.0
Net drawings on Credit Facility	(38.5)	(86.0)
Outstanding letters of credit included in line utilization	(3.2)	(27.3)
Unused portion of Credit Facility	<u>\$ 208.3</u>	<u>\$ 136.7</u>
Credit Facility drawings	\$ 38.5	\$ 86.0
Less transaction costs	(0.9)	(0.5)
Long-term debt at December 31	<u>\$ 37.6</u>	<u>\$ 85.5</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 May 1, 2025, the Credit Facility was amended, with the maturity date extended to July 21, 2028 from July 21, 2026.

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.

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 and a minimum consolidated net worth test.

On September 16, 2025, the Credit Facility was amended to allow a new bilateral letter of credit facility (the "LC Facility") with Royal Bank of Canada. The LC Facility provides for a maximum of USD\$30 million in letters of credit to be used as collateral for US customs bonds related to duties imposed on softwood lumber. The LC Facility is guaranteed by Export Development Canada. As at December 31, 2025, the Company had USD\$21.0 million (\$28.8 million) in outstanding letters of credit on the LC Facility.

The Company was in compliance with its financial covenants as at December 31, 2025 and expects to comply for at least twelve months thereafter. Accordingly, the loan is classified a non-current at December 31, 2025.

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.

Western Forest Products Inc.

Notes to the Consolidated Financial Statements

Years ended December 31, 2025 and 2024

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

12. Lease liabilities (continued)

Accounting policy (continued)

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 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.

Supporting information

Changes in the lease liabilities are as follows:

	December 31, 2025	December 31, 2024
Lease liabilities, beginning of year	\$ 19.5	\$ 19.9
New leases and modifications	11.7	7.9
Terminations	(1.1)	(0.2)
Finance costs ^(Note 27)	1.2	1.1
Lease payments	(10.1)	(9.5)
Effect of movements in exchange rates	(0.1)	0.3
Lease liabilities at December 31	<u>\$ 21.1</u>	<u>\$ 19.5</u>
Current	\$ 7.3	\$ 6.7
Long term	13.8	12.8
	<u>\$ 21.1</u>	<u>\$ 19.5</u>

The weighted average incremental borrowing rate used to establish lease obligations in 2025 was approximately 7.11% (2024: 8.28%).

In addition to the above, the Company recognized an expense of \$2.8 million during the year ended December 31, 2025 (2024: \$3.3 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.

Western Forest Products Inc.

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

13. Reforestation obligation (continued)

Accounting policy (continued)

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,	
	2025	2024
Reforestation obligation, beginning of year	\$ 21.9	\$ 22.1
Provision charged	4.1	6.4
Expenditures	(6.1)	(7.1)
Unwind of discount ^(Note 27)	0.4	0.5
	20.3	21.9
Less current portion	6.7	7.3
Long-term reforestation obligation, end of year	\$ 13.6	\$ 14.6

The reforestation expenditures are expected to occur over the next one to ten years and have been discounted at risk-free rates of 2.42% to 3.43% (2024: 2.90% to 3.23%). The total undiscounted amount of the estimated future expenditures required to settle the reforestation obligation at December 31, 2025 is \$22.3 million (2024: \$24.1 million).

14. Other liabilities

	Current	Non-current	Total
As at December 31, 2025			
Defined benefit employee future benefits obligation ^(Note 22)	\$ -	\$ 1.9	\$ 1.9
Defined contribution employee future benefits obligation	-	3.3	3.3
Environmental provision	0.2	2.2	2.4
Deferred share unit plan liabilities ^{(Note 18(b))}	1.6	-	1.6
Restricted share unit plan liabilities ^{(Note 18(d))}	0.5	2.9	3.4
Other	-	0.3	0.3
	\$ 2.3	\$ 10.6	\$ 12.9
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
	\$ 1.7	\$ 11.8	\$ 13.5

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.

Western Forest Products Inc.

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

15. Income taxes (continued)

Accounting policy (continued)

(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.

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,	
	2025	2024
Income tax recovery		
Current	\$ (7.8)	\$ (5.8)
Deferred	(24.0)	(11.8)
	<u>\$ (31.8)</u>	<u>\$ (17.6)</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,	
	2025	2024
Income tax recovery at the statutory rate of 27.0% (2024: 27.0%)	\$ (30.8)	\$ (14.1)
Difference in tax rates	(3.0)	0.8
Realization of previously unrecognized valuation allowance	-	(6.1)
Other permanent differences	1.6	1.5
Other	0.4	0.3
Total tax recovery at effective rate of 27.9% (2024: 33.8%)	<u>\$ (31.8)</u>	<u>\$ (17.6)</u>

Western Forest Products Inc.

Notes to the Consolidated Financial Statements

Years ended December 31, 2025 and 2024

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

15. Income taxes (continued)

Supporting information (continued)

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, 2025					
Deferred income tax assets					
Tax loss carry-forwards	\$ 4.6	\$ 1.3	\$ -	\$ 0.1	\$ 6.0
Employee future benefits obligation	1.2	-	(0.7)	-	0.5
Provisions and other	4.8	19.7	-	-	24.5
	10.6	21.0	(0.7)	0.1	31.0
Deferred income tax liabilities					
Intangible assets	(21.6)	0.9	-	-	(20.7)
Property, plant and equipment	(45.9)	2.1	-	-	(43.8)
	(67.5)	3.0	-	-	(64.5)
	\$ (56.9)	\$ 24.0	\$ (0.7)	\$ 0.1	\$ (33.5)
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
	11.6	6.3	0.3	(7.6)	10.6
Deferred income tax liabilities					
Intangible assets	(23.9)	2.3	-	-	(21.6)
Property, plant and equipment	(49.1)	3.2	-	-	(45.9)
	(73.0)	5.5	-	-	(67.5)
	\$ (61.4)	\$ 11.8	\$ 0.3	\$ (7.6)	\$ (56.9)

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

	December 31, 2025	December 31, 2024
Deferred income tax assets	\$ 2.9	\$ 0.1
Deferred income tax liabilities	(36.4)	(57.0)
	\$ (33.5)	\$ (56.9)

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, 2025, the Company and its subsidiaries have unused non-capital tax losses carried forward totalling \$25.3 million in the US (2024: \$18.5 million) and \$1.7 million in Canada (2024: \$2.5 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 (2024: \$0.1 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, 2025	December 31, 2024
Temporary deductible differences	\$ 28.4	\$ 32.1
Capital loss carry-forwards	0.1	0.1
	\$ 28.5	\$ 32.2

Western Forest Products Inc.

Notes to the Consolidated Financial Statements

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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, 2023, 2024, 2025	10,558,183	\$ 405.4

No stock options were exercised in 2025 or 2024.

On July 1, 2025, the Board of Directors approved a consolidation on the basis of one post-consolidation common share for every 30 pre-consolidation common shares. On July 28, 2025, the share consolidation became effective. As a result of the share consolidation, all per share information in the consolidated financial statements has been retrospectively adjusted for all periods presented.

17. Non-controlling interest

On March 27, 2024, the Company completed the sale of a 34% ownership interest in its newly formed Lakkwa 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 Tree Farm Licence ("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. During the year ended December 31, 2025, the Company incurred \$0.3 million, net of deferred tax, as a final settlement payment related to the sale, which 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.

Western Forest Products Inc.

Notes to the Consolidated Financial Statements

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

18. Share-based compensation plans (continued)

Supporting information

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 1,000,000 common shares, of which 356,999 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 \$21.00 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 2025 or 2024.

The following table summarizes the change in options outstanding:

	Year ended December 31, 2025		Year ended December 31, 2024	
	Number of options	Weighted average exercise price	Number of options	Weighted average exercise price
			Outstanding at beginning of year	Exercised
Outstanding at beginning of year	341,290	\$ 51.09	382,890	\$ 53.81
Exercised	-	-	-	-
Expired	(38,152)	65.91	(41,600)	76.13
Forfeited	-	-	-	-
Outstanding at December 31	<u>303,138</u>	<u>\$ 49.22</u>	<u>341,290</u>	<u>\$ 51.09</u>

Details of options outstanding under the Option Plan as at December 31, 2025 were as follows:

Exercise Price	Number outstanding Dec. 31, 2025	Weighted average remaining option life (years)	Weighted average exercise price	Number exercisable Dec. 31, 2025	Weighted average exercise price
\$31.50 – 31.50	126,346	4.2	\$ 31.50	126,346	\$ 31.50
\$44.10 – 59.10	111,131	2.8	56.34	104,464	57.12
\$62.70 – 82.20	65,661	1.6	71.27	65,661	71.27
	<u>303,138</u>	<u>3.1</u>	<u>\$ 49.22</u>	<u>296,471</u>	<u>\$ 49.34</u>

During 2025, the Company recorded a negligible equity-based compensation expense for these options (2024: \$0.1 million expense), with a corresponding change to contributed surplus.

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18. Share-based compensation plans (continued)

Supporting information (continued)

(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, 2025		Year ended December 31, 2024	
	Number of DSUs	Weighted average unit value ¹	Number of DSUs	Weighted average unit value ¹
Outstanding at beginning of year	79,325	\$ 20.88	85,598	\$ 36.35
Granted ¹	66,223	12.01	47,039	15.37
Redeemed	-	-	(53,312)	40.86
Outstanding at December 31	<u>145,548</u>	<u>\$ 16.84</u>	<u>79,325</u>	<u>\$ 20.88</u>

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

During 2025, the Company recorded compensation recovery for these DSUs of \$0.2 million (2024: \$0.7 million recovery), with a corresponding decrease to accounts payable and accrued liabilities (Note 14).

(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, and, commencing with grants in 2025, an equal weighting between return on capital employed and adjusted earnings before interest, tax, depreciation and amortization per thousand board feet of lumber shipments, over a three-year performance period.

	Year ended December 31, 2025		Year ended December 31, 2024	
	Number of PSUs	Weighted average unit value ¹	Number of PSUs	Weighted average unit value ¹
Outstanding at beginning of year	202,181	\$ 30.25	119,148	\$ 46.58
Granted ¹	216,061	12.75	120,720	19.12
Redeemed	(29,186)	60.51	(37,687)	46.21
Forfeited	(16,666)	18.70	-	-
Outstanding at December 31	<u>372,390</u>	<u>\$ 18.24</u>	<u>202,181</u>	<u>\$ 30.25</u>

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

During 2025, the Company recorded a negligible compensation expense for these PSUs (2024: negligible compensation expense), with a corresponding change to accounts payable and accrued liabilities (Note 14).

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18. Share-based compensation plans (continued)

Supporting information (continued)

(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, 2025		Year ended December 31, 2024	
	Number of RSUs	Weighted average unit value ¹	Number of RSUs	Weighted average unit value ¹
Outstanding at beginning of year	381,688	\$ 26.15	155,490	\$ 46.19
Granted ¹	219,088	12.75	282,162	19.39
Redeemed	(50,991)	48.96	(55,964)	47.73
Forfeited	(27,778)	19.18	-	-
Outstanding at December 31	<u>522,007</u>	<u>\$ 18.67</u>	<u>381,688</u>	<u>\$ 26.15</u>

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

During 2025, the Company recorded compensation expense for these RSUs of \$2.0 million (2024: \$1.0 million) with a corresponding increase to accounts payable and accrued liabilities and other liabilities (Note 14).

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, 2025			Year ended December 31, 2024		
	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		10,558,183			10,558,183	
Effect of shares:						
Issued		-			-	
Repurchased		-			-	
Basic loss per share	\$ (79.8)	10,558,183	\$ (7.56)	\$ (30.4)	10,558,183	\$ (2.88)
Effect of dilutive securities:						
Stock options		-			-	
Diluted loss per share	<u>\$ (79.8)</u>	<u>10,558,183</u>	<u>\$ (7.56)</u>	<u>\$ (30.4)</u>	<u>10,558,183</u>	<u>\$ (2.88)</u>

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.

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20. Capital management (continued)

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 Normal Course Issuer Bid ("NCIB"), depending upon market prices. All repurchased common shares are cancelled. The Company's 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 and has not been reinstated.

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.

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 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 differed from final duty rates for lumber shipments made in 2017 through 2023, the Company recognized a long-term interest-bearing duty receivable totalling USD\$3.2 million (\$4.4 million) in its statements of financial position. During the year ended December 31, 2025, export tax expense of \$92.8 million (2024: \$24.5 million) was recorded in the statements of comprehensive loss, of which \$91.0 million relates to AD and CV duties.

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21. Commitments and contingencies (continued)

(a) Softwood lumber duty dispute (continued)

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 February 21, 2025, the DoC initiated its seventh AR of CV and AD for shipments in 2024, with expected preliminary results released in April 2026.

On July 21, 2025, a binational Canada-United States-Mexico Agreement ("CUSMA") Chapter 10 Panel (the "Panel") issued its initial decision with respect to Canada's challenge of the DoC's final results of the first AR ("AR1") of the AD order on Canadian softwood lumber products. AR1 relates to softwood lumber exports from the period April 28, 2017 through December 31, 2018. The Panel determined that certain key aspects of the DoC's final AR1 AD results were inconsistent with US law and directed the DoC to review those aspects of its decision. On September 17, 2025, the Panel dismissed the case at the joint request of the Canadian and US parties.

On July 25, 2025, the DoC announced its final AD rates applicable to Western related to the sixth AR of 20.56%, compared to the previous AD rate of 7.66%. On August 8, 2025, the DoC announced its final CV rates applicable to Western related to AR6 of 14.63%, compared to the previous CV rate of 6.74%. On September 11, 2025, the DoC amended the AD rate to 20.53% to correct a ministerial calculation error. Western recorded a non-cash export tax expense of USD\$44.1 million (\$59.5 million), plus accrued interest of approximately USD\$8.2 million (\$11.4 million), in 2025 related to the sixth AR final AD and CV rates (2024: export tax recovery of USD\$0.8 million; CAD\$1.0 million related to the fifth AR final AD and CV rates). Cash deposits accrue at the most recent final AD and CV duty rates.

The following table summarizes the cash deposit rates in effect and the preliminary and final rates applicable to Canadian lumber shipments to the US for the periods presented:

Lumber shipment date	Aug. 11, 2025 Onward	July 29, 2025 through Aug. 11, 2025	Aug. 19, 2024 through July 28, 2025	Aug. 1, 2023 through Aug. 18, 2024
		14.63%	6.74%	6.74%
Cash deposit rate				1.79%
CV				1.79%
AD		20.53%	20.53%	7.66%
Combined		35.16%	27.27%	14.40%
				8.05%
Lumber shipment year		AR6 2023 Final	AR5 2022 Final	AR4 2021 Final
		14.63%	6.74%	1.79%
Duty rate				6.26%
CV				6.26%
AD		20.53%	7.66%	6.26%
Combined		35.16%	14.40%	8.05%

As at December 31, 2025, including interest of USD\$4.0 million (2024: USD\$10.2 million), the duty receivable of USD\$7.2 million (2024: USD\$57.5 million) was revalued at the year-end exchange rate to CAD\$9.9 million (2024: CAD\$82.7 million).

Interest expense of \$8.6 million was recorded in finance costs for the year ended December 31, 2025 (2024: \$4.6 million interest recovery). A foreign exchange loss of \$4.7 million was recorded in other income for the year ended December 31, 2025 (2024: foreign exchange gain of \$6.4 million).

As at December 31, 2025, the Company had paid \$283 million (USD\$206 million) of duties, all of which remain held in trust by US Department of Treasury (2024: \$264 million (USD\$184 million)). With the exception of USD\$3.2 million (CAD\$4.4 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.

Western Forest Products Inc.

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Years ended December 31, 2025 and 2024

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

21. Commitments and contingencies (continued)

(b) Incremental US Tariffs

On September 29, 2025, US President Donald Trump signed an executive order imposing a 10% tariff on imported lumber products through Section 232 of the Trade Expansion Act. The incremental 10% tariff became effective on October 14, 2025. During the year ended December 31, 2025, export tax expense of \$1.8 million was recorded in the statements of comprehensive loss related to incremental US Tariffs.

(c) 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.

During 2025, the Company recorded export tax expense of \$1.6 million (2024: \$2.8 million) in cost of goods sold in respect of this Regulation.

(d) 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.

(e) 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 requires 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 2025 and 2024, and the exercise of force majeure provisions the Company believes it has satisfied annual fibre commitments for those years.

(f) Bond obligations

As at December 31, 2025 the Company posted \$6.1 million in bid bonds (2024: \$10.8 million) for purchases under timber sales agreements, with expiry dates extending through January 2027 and \$41.2 million in customs bonds (2024: \$37.4 million) for softwood lumber duties. The customs bonds, which are partially secured by letters of credit of \$28.8 million (2024: \$24.5 million) at December 31, 2025, remain outstanding until the related softwood lumber duties are liquidated.

Western Forest Products Inc.

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21. Commitments and contingencies (continued)

(g) Purchase commitments

As at December 31, 2025, the Company had contracts to acquire equipment totalling \$14.2 million (2024: \$12.2 million) and contractual commitments of \$7.5 million (2024: \$11.2 million) for purchases of lumber for wholesale programs.

(h) Pension funding commitments

The Company has funding requirements under its defined benefit pension plans of \$0.5 million for 2026 and an estimated \$0.5 million per year on average for 2027 to 2034, 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.

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 Forest Products Inc.

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22. Employee future benefits (continued)

(c) Employee future benefits (continued)

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, 2025		December 31, 2024	
	Salaried pension plans	Non-pension plans	Salaried pension plans	Non-pension plans
Accrued benefit obligation:				
Balance, beginning of year	\$ 87.6	\$ 2.2	\$ 90.6	\$ 2.3
Current service costs and administrative expenses	0.3	-	0.3	-
Benefits and administrative expenses paid	(7.4)	(0.1)	(8.0)	(0.2)
Interest cost	3.8	0.1	4.0	0.1
Actuarial (gain) loss	(3.5)	-	0.7	-
Balance, end of year	<u>\$ 80.8</u>	<u>\$ 2.2</u>	<u>\$ 87.6</u>	<u>\$ 2.2</u>
Plan assets:				
Fair value, beginning of year	\$ 84.9	\$ -	\$ 88.2	\$ -
Company's contributions	0.8	0.1	1.2	0.2
Benefits and administrative expenses paid	(7.4)	(0.1)	(7.9)	(0.2)
Interest on plan assets	3.8	-	3.9	-
Actuarial loss	(1.0)	-	(0.5)	-
Fair value, end of year	<u>\$ 81.1</u>	<u>\$ -</u>	<u>\$ 84.9</u>	<u>\$ -</u>
Net employee future benefits liability (asset) recognized in consolidated statements of financial position (Note 14)	<u>\$ (0.3)</u>	<u>\$ 2.2</u>	<u>\$ 2.7</u>	<u>\$ 2.2</u>
Cumulative actuarial (losses) gains, beginning of year	\$ (32.0)	\$ 3.1	\$ (30.8)	\$ 3.1
Actuarial gain (loss) recognized directly in OCI	2.5	-	(1.2)	-
Cumulative actuarial (losses) gains, end of year	<u>\$ (29.5)</u>	<u>\$ 3.1</u>	<u>\$ (32.0)</u>	<u>\$ 3.1</u>
Experience gains (losses):				
Experience losses on plan assets:				
Amount	\$ (1.0)	n/a	\$ (0.4)	n/a
Percentage of plan assets	(1.26%)	n/a	(0.44%)	n/a
Experience gains (losses) on plan liabilities:				
Amount	\$ 2.8	\$ -	\$ (0.1)	\$ -
Percentage of plan liabilities	3.37%	0.00%	(0.07%)	0.00%

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.

Western Forest Products Inc.

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22. Employee future benefits (continued)

(c) Employee future benefits (continued)

Supporting information (continued)

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, 2025 were \$10.9 million (2024: \$12.6 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, 2024. The next actuarial valuation for both the funded and unfunded defined benefit plans and other unfunded post-employment benefit plans is scheduled in 2028 for December 31, 2027. Included in the accrued benefit obligations and plan assets for salaried pension plans, are accrued benefit obligations of \$78.7 million at December 31, 2025 (2024: \$85.4 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, 2025	December 31, 2024
Equity securities	0%	5%
Debt securities	98%	92%
Other	2%	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, 2025	December 31, 2024	December 31, 2025 Increase (decrease) of accrued benefit obligation with change assumption	
			1% Increase	1% Decrease
Discount rate, beginning of year for:				
Pension plans	4.54%	4.63%	n/a	n/a
Non-pension plans	4.50%	4.65%	n/a	n/a
Discount rate, end of year for:				
Pension plans	4.64%	4.54%	\$ (6.3)	\$ 7.4
Non-pension plans	4.55%	4.50%	(0.2)	0.2

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

	December 31, 2025		December 31, 2024	
	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
Total cost of employee post-retirement benefits	\$ 0.3	\$ 0.1	\$ 0.4	\$ 0.1

The Company is committed to making funding contributions to its defined benefit plans of \$1.0 million during 2026.

Western Forest Products Inc.

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22. Employee future benefits (continued)

(c) Employee future benefits (continued)

Supporting information (continued)

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 2025, such contributions amounted to \$5.1 million (2024: \$6.3 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.

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.

Western Forest Products Inc.

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24. Revenue (continued)

Accounting policy (continued)

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,	
	2025	2024
Primary geographic markets		
Canada	\$ 359.8	\$ 391.5
United States	324.0	381.0
Japan	109.4	125.0
China	86.0	79.4
Other	88.3	73.7
Europe	19.0	13.3
	<u>\$ 986.5</u>	<u>\$ 1,063.9</u>
Major products		
Lumber	\$ 764.5	\$ 817.1
Logs	157.6	188.0
By-products	38.4	41.7
Forestry services and other	26.0	17.1
	<u>\$ 986.5</u>	<u>\$ 1,063.9</u>

(b) Contract balances

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

	Years ended December 31,	
	2025	2024
Trade and other receivables		
Long-term loan receivable ^(Note 9)	\$ 63.5	\$ 57.5
Contract liabilities	0.3	0.7
	40.4	42.5

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(e)). The Company recognized related revenue of \$2.1 million in 2025 (2024: \$2.0 million).

25. Operating restructuring items

	Years ended December 31,	
	2025	2024
Retirement and other benefits	\$ 0.2	\$ 1.3
Impairment of assets held for sale ^(Note 5)	-	2.8
Curtailment costs ^(Note 5)	1.1	0.9
Other	0.6	0.5
	<u>\$ 1.9</u>	<u>\$ 5.5</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.

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26. Other income

	Years ended December 31,	
	2025	2024
Gain on sale of private timberlands	\$ 23.7	\$ -
Gain on sale of assets held for sale ^(Note 5)	0.2	-
Loss on disposal of property, plant and equipment ^(Note 6)	(0.1)	(0.6)
Fire-related impairments	(3.9)	-
Foreign exchange (losses) gains	(5.3)	7.0
Insurance recovery	6.9	-
Other	0.1	0.1
	<u>\$ 21.6</u>	<u>\$ 6.5</u>

On February 10, 2025, the Company completed the sale of 14,294 hectares of fee simple land, biological assets and infrastructure on northern Vancouver Island, BC for net proceeds of \$67.3 million to a Canadian affiliate of the Eastwood Climate Smart Forestry Fund I. The Company recorded a gain of \$23.7 million on the sale.

On June 29, 2025, the Company's CVD sawmill site, located in Vancouver, Washington, sustained extensive damage in a fire, rendering the mill inoperable. As a result of the fire, the Company recorded impairment charges of \$3.2 million related to property, plant and equipment and \$0.7 million related to inventory that was damaged. During the year ended December 31, 2025, the Company recognized \$6.9 million in an insurance recovery related to the fire as an initial deposit.

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, net interest accrued on the export tax receivable, offset by interest accrued on 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,	
	2025	2024
Long-term debt	\$ 4.4	\$ 8.8
Lease liabilities ^(Note 12)	1.2	1.1
Employee future benefits obligation ^(Note 22)	0.2	0.2
Unwind of discount on provisions ^(Note 13)	0.4	0.5
Interest expense (income) on export tax receivable ^{(Note 21(a))}	8.6	(4.6)
Amortization of deferred financing costs	0.5	0.3
Other	0.2	0.4
	<u>\$ 15.5</u>	<u>\$ 6.7</u>

Western Forest Products Inc.

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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.

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.

Western Forest Products Inc.

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

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 2025 and 2024.

	December 31, 2025						December 31, 2024					
	Level	Mandatory at FVTPL		Amortized cost		Total	\$	Mandatory at FVTPL		Amortized cost		\$
		Cash and cash equivalents	Trade and other receivables	Note receivable ^(Note 9)	Long-term receivable ^(Note 9)	Other advances		Export tax and related interest receivable ^{(Note 21(a))}	82.7	7.9	57.5	
Financial assets												
Cash and cash equivalents	2	\$ -	\$ 4.3	\$ 4.3	\$ -	\$ 4.3	\$ -	9.9	-	7.9	\$ 7.9	\$ 7.9
Trade and other receivables	3	-	63.5	63.5	-	-	-	-	82.7	-	57.5	57.5
Note receivable ^(Note 9)	3	-	2.6	2.6	-	-	-	-	-	2.6	-	2.6
Long-term receivable ^(Note 9)	3	-	-	-	-	-	-	-	-	0.3	-	0.3
Other advances	3	-	1.2	1.2	-	-	-	-	-	1.2	-	1.2
Export tax and related interest receivable ^{(Note 21(a))}	3	9.9	-	9.9	-	-	-	-	-	-	-	82.7
Total financial assets		\$ 9.9	\$ 71.6	\$ 81.5	\$ 82.7	\$ 69.5	\$ 152.2					
Financial liabilities												
Bank indebtedness	2	\$ -	\$ 0.4	\$ 0.4	\$ -	\$ 0.4	\$ -	-	\$ -	\$ -	\$ -	\$ -
Accounts payable and accrued liabilities	2	-	88.9	88.9	-	-	-	-	-	110.7	-	110.7
Liabilities directly associated with assets held for sale ^(Note 5)	2	-	-	-	-	-	-	-	-	0.3	-	0.3
Long-term debt ^(Note 11)	2	-	38.5	38.5	-	-	-	-	-	86.0	-	86.0
Lease liabilities ^(Note 12)	2	-	21.1	21.1	-	-	-	-	-	19.5	-	19.5
Total financial liabilities		\$ -	\$ 148.9	\$ 148.9	\$ -	\$ 216.5	\$ 216.5					

(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 \$4.3 million at December 31, 2025 (2024: \$7.9 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.

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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, 2025 and 2024.

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

	December 31, 2025	December 31, 2024
Not past due	\$ 64.8	\$ 58.6
Past due 0-30 days	1.3	1.5
Greater than 30 days past due	-	-
	<u>\$ 66.1</u>	<u>\$ 60.1</u>

Other assets

The Company has recognized a long-term receivable from the DoC for recovery of export tax and accrued interest thereon totalling \$9.9 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 2025 and 2024.

(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, 2025 and 2024

(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, 2025, the Company had \$208.3 million (2024: \$136.7 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	\$ 88.9	\$ 88.9	\$ 88.9	\$ -	\$ -	\$ -
Lease liabilities	21.1	26.6	7.9	6.6	2.0	10.1
Long-term debt	38.5	46.7	3.2	43.5	-	-
	\$ 148.5	\$ 162.2	\$ 100.0	\$ 50.1	\$ 2.0	\$ 10.1

(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, 2025, an increase of 1% in interest rates would result in a increase of \$0.4 million to finance costs (2024: \$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 2025, 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, 2025, the Company had outstanding obligations to sell an aggregate USD\$12.0 million at an average exchange rate of CAD\$1.3713 per USD with maturities through January 16, 2026 (2024: USD\$12.0 million at an average exchange rate of CAD\$1.4369 per USD) and recorded a negligible fair value asset (2024: negligible fair value asset) in its consolidated statement of financial position. In 2025, the Company recorded \$0.7 million in gains on forward contracts (2024: \$1.9 million loss) 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, 2025 (2024: \$0.2 million loss).

Western Forest Products Inc.

Notes to the Consolidated Financial Statements

Years ended December 31, 2025 and 2024

(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, 2025, the Company held USD\$1.5 million (2024: 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 (2024: negligible decrease).

Certain receivable balances at December 31, 2025 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, 2025, the Company's USD denominated accounts and other receivables totaled USD\$19.9 million (2024: USD\$17.6 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 (2024: \$0.4 million decrease).

As at December 31, 2025, the Company's export tax receivable and related interest totaled USD\$7.2 million (2024: USD\$57.5 million). An increase of 1% in the value of the Canadian dollar relative to the USD would result in a decrease of \$0.1 million to accounts and other receivables (2024: \$0.8 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 who have authority and responsibility for planning, directing and controlling the activities of the Company, either directly or indirectly.

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,	
	2025	2024
Salaries, directors' fees and short-term benefits	\$ 6.2	\$ 6.3
Post-employment benefits	0.7	0.8
Share-based compensation, including mark-to-market adjustment	1.0	0.3
	<hr/>	<hr/>
	\$ 7.9	\$ 7.4

As at December 31, 2025, \$6.1 million of key management compensation costs were included in accounts payable and accrued liabilities and other liabilities (2024: \$6.2 million).

Western Forest Products Inc.

Notes to the Consolidated Financial Statements

Years ended December 31, 2025 and 2024

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

30. Expense categorization

Expenses by function:

	Years ended December 31,	
	2025	2024
Administration	\$ 30.3	\$ 30.6
Distribution expenses	164.1	106.0
Cost of goods sold	910.5	973.7
	<hr/> <u>\$ 1,104.9</u>	<hr/> <u>\$ 1,110.3</u>

Distribution expenses include \$92.8 million of export taxes which include expenses of \$59.5 million (2024: \$24.5 million net of recoveries of \$1.0 million) on finalization of duty rates (see Note 21(a)).

Selected costs by nature:

	Years ended December 31,	
	2025	2024
Compensation costs	\$ 191.8	\$ 207.4
Amortization in costs of goods sold	49.2	52.5
Amortization in selling and administration	1.1	2.2

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

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