Western Forest Products®

Western Forest Products Inc.

Unaudited Condensed Consolidated Interim Financial Statements

For the three months ended March 31, 2025 and 2024

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

	March 31, 2025	December 31, 2024
Assets		
Current assets:		
Cash and cash equivalents	$ 4.8	$ 7.9
Trade and other receivables	73.5	60.1
Inventory (Note 5)	206.2	217.1
Prepaid expenses and other assets	36.1	35.0
Assets held for sale (Note 6)	-	7.4
Income taxes receivable	5.1	6.6
	325.7	334.1
Non-current assets:		
Property, plant and equipment	336.2	349.6
Timber licenses	87.2	88.2
Biological assets (Note 7)	15.9	48.6
Other assets (Note 18(a))	87.8	87.4
Goodwill	7.5	7.5
Deferred income tax assets	0.4	0.1
	$ 860.7	$ 915.5
Liabilities and Equity		
Current liabilities:		
Bank indebtedness	$ 0.4	$ -
Accounts payable and accrued liabilities	102.5	110.7
Liabilities directly associated with assets held for sale (Note 6)	-	0.3
Lease liabilities	7.2	6.7
Reforestation obligation	8.2	7.3
Deferred revenue (18(d))	2.0	2.0
	120.3	127.0
Non-current liabilities:		
Long-term debt (Note 8)	25.6	85.5
Lease liabilities	12.7	12.8
Reforestation obligation	14.1	14.6
Other liabilities (Note 10)	12.4	11.8
Deferred revenue (Note 18(d))	39.9	40.5
Deferred income tax liabilities	55.9	57.0
	280.9	349.2
Equity:		
Share capital	405.4	405.4
Contributed surplus	8.9	8.9
Translation reserve	8.2	8.1
Retained earnings	149.4	135.8
Total equity attributable to equity shareholders of the Company	571.9	558.2
Non-controlling interest (Note 11)	7.9	8.1
	579.8	566.3
	$ 860.7	$ 915.5

Commitments and contingencies (Note 18)
Subsequent event (Note 8)

See accompanying notes to these unaudited condensed consolidated interim financial statements.

Approved on behalf of the Board:

"Daniel Nocente"
Chair

"Steven Hofer"
President & Chief Executive Officer

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

	Three months ended March 31, 2025	Three months ended March 31, 2024
Revenue (Note 13)	$ 262.5	$ 239.5
Costs and expenses:		
Cost of goods sold	235.1	225.4
Freight	16.3	16.0
Export tax (Note 18(a, b))	9.0	4.0
Selling and administration	11.3	11.4
	271.7	256.8
Operating loss prior to restructuring and other items	(9.2)	(17.3)
Operating restructuring items (Note 14)	(0.3)	0.2
Other income (Note 15)	24.3	1.8
Operating income (loss)	14.8	(15.3)
Finance costs	(1.1)	(2.1)
Income (loss) before income taxes	13.7	(17.4)
Income tax expense (recovery) (Note 16)		
Current	1.1	0.1
Deferred	(1.2)	(9.5)
	(0.1)	(9.4)
Net income (loss)	13.8	(8.0)
Net income (loss) attributable to equity shareholders of the Company	14.0	(7.7)
Net loss attributable to non-controlling interest	(0.2)	(0.3)
	13.8	(8.0)
Other comprehensive income (loss)		
Items that will not be reclassified to profit or loss:		
Employee future benefits actuarial loss	(0.6)	(0.2)
Income tax recovery (Note 16)	0.2	0.1
Total items that will not be reclassified to profit or loss	(0.4)	(0.1)
Items that may be reclassified subsequently to profit or loss:		
Foreign currency translation differences for foreign operations	0.1	1.6
Total comprehensive income (loss)	$ 13.5	$ (6.5)
Earnings (loss) per share (in dollars) (Note 17)		
Basic and diluted	$ 0.04	$ (0.02)

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

	Share Capital						
	Number [1]	Amount	Contributed surplus	Translation reserve	Retained earnings	Non-controlling interest	Total equity
Balance at December 31, 2023	316,746	405.4	8.8	1.9	148.9	2.9	567.9
Net loss	-	-	-	-	(7.7)	(0.3)	(8.0)
Other comprehensive income (loss):							
Employee future benefits actuarial loss	-	-	-	-	(0.2)	-	(0.2)
Income tax recovery on actuarial loss (Note 16)	-	-	-	-	0.1	-	0.1
Foreign currency translation differences for foreign operations	-	-	-	1.6	-	-	1.6
Total comprehensive loss	-	-	-	1.6	(7.8)	(0.3)	(6.5)
Non-controlling interest (Note 11)	-	-	-	-	19.5	9.5	29.0
Total transactions with owners, recorded directly in equity	-	-	-	-	19.5	9.5	29.0
Balance at March 31, 2024	316,746	$ 405.4	$ 8.8	$ 3.5	$ 160.6	$ 12.1	$ 590.4
Balance at December 31, 2024	316,746	405.4	8.9	8.1	135.8	8.1	566.3
Net income	-	-	-	-	14.0	(0.2)	13.8
Other comprehensive income (loss):							
Employee future benefits actuarial loss	-	-	-	-	(0.6)	-	(0.6)
Income tax recovery on actuarial loss (Note 16)	-	-	-	-	0.2	-	0.2
Foreign currency translation differences for foreign operations	-	-	-	0.1	-	-	0.1
Total comprehensive income (loss)	-	-	-	0.1	13.6	(0.2)	13.5
Balance at March 31, 2025	316,746	$ 405.4	$ 8.9	$ 8.2	$ 149.4	$ 7.9	$ 579.8

[1] Number of shares presented in thousands.

See accompanying notes to these unaudited condensed consolidated interim financial statements.

Western Forest Products Inc.
Condensed Consolidated Statements of Cash Flows
(Expressed in millions of Canadian dollars) (unaudited)

	Three months ended March 31, 2025	Three months ended March 31, 2024
Cash provided by (used in):		
Operating activities:		
Net income (loss)	$ 13.8	$ (8.0)
Items not involving cash:		
Amortization of property, plant and equipment	11.7	12.2
Amortization of timber licenses	1.0	1.0
Gain on disposal of assets (Notes 6, 15)	(23.9)	(0.2)
Amortization of deferred revenue	(0.6)	(0.5)
Finance costs	1.1	2.1
Income tax recovery (Note 16)	(0.1)	(9.4)
Change in reforestation obligation	0.2	0.7
Share-based compensation, including mark-to-market adjustment	0.9	0.3
Change in employee future benefits obligation (Note 9)	(0.3)	(0.2)
Foreign exchange and other	0.3	(1.9)
Income taxes refunded (paid)	0.5	(0.1)
	4.6	(4.0)
Changes in non-cash working capital items:		
Trade and other receivables	(12.1)	(12.6)
Inventory	10.9	3.0
Prepaid expenses and other assets	(1.1)	(3.1)
Accounts payable and accrued liabilities	(8.0)	(11.3)
	(10.3)	(24.0)
	(5.7)	(28.0)
Investing activities:		
Additions to property, plant and equipment	(7.4)	(4.8)
Net proceeds from private timberlands sale (Note 15)	67.3	-
Net proceeds from sale of assets held for sale (Notes 6, 15)	7.1	-
Net proceeds of property, equipment and other disposals	0.2	0.8
Advances and loans receipts	0.1	0.1
Proceeds on disposition of minority interest in subsidiary (Note 11)	-	35.9
	67.3	32.0
Financing activities:		
Net (repayments) drawings on credit facility (Note 8)	(60.0)	1.7
Bank indebtedness (repayments)	0.4	(0.4)
Interest payments	(1.9)	(2.7)
Lease payments	(3.2)	(2.4)
	(64.7)	(3.8)
Increase (decrease) in cash and cash equivalents	(3.1)	0.2
Cash and cash equivalents, beginning of period	7.9	2.3
Cash and cash equivalents, March 31	$ 4.8	$ 2.5

(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 unaudited condensed consolidated interim financial statements ("interim financial statements") as at and for the three months ended March 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 glulam remanufacturing, and wholesaling purchased lumber. The Company is listed on the Toronto Stock Exchange ("TSX"), under the symbol WEF.

2. Basis of preparation

These interim financial statements of the Company have been prepared in accordance with IAS 34, *Interim Financial Reporting.* These interim financial statements do not include all of the disclosures required by IFRS for annual financial statements, and should be read in conjunction with the Company's annual consolidated financial statements for the year ended December 31, 2024, available at www.westernforest.com or www.sedarplus.ca. References to the three months ended March 31 may be referred to as Q1.

The interim financial statements were authorized for issue by the Board of Directors on May 6, 2025.

3. Material accounting policies

The material accounting policies applied by the Company in these interim financial statements are the same as those applied by the Company in its annual consolidated financial statements as at and for the year ended December 31, 2024.

4. Seasonality of operations

In a normal operating year, there is some seasonality to the Company's operations, with higher lumber sales in the second and third quarters when construction activity in certain key markets has historically tended to be higher. Logging activity may also vary depending on weather conditions such as rain, snow and ice in the winter and the threat of forest fires in the summer.

5. Inventory

	March 31, 2025			December 31, 2024		
	Gross carrying value	Provisions	Lower of cost and net realizable value	Gross carrying value	Provisions	Lower of cost and net realizable value
Logs	$ 122.4	$ (12.2)	$ 110.2	$ 138.0	$ (13.2)	$ 124.8
Lumber	89.3	(14.1)	75.2	82.8	(11.3)	71.5
Supplies and other	20.8	-	20.8	20.8	-	20.8
	$ 232.5	$ (26.3)	$ 206.2	$ 241.6	$ (24.5)	$ 217.1

The carrying amount of inventory recorded at net realizable value was $61.1 million at March 31, 2025 (December 31, 2024: $61.9 million), with the remaining inventory recorded at cost.

The Company recognized an increase in the provision for write-down to net realizable value of $1.8 million for the three months ended March 31, 2025 (Q1 2024: increase of $0.8 million).

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

6. Assets held for sale

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 first quarter of 2025 recorded in other income in the statement of comprehensive income related to the sale.

As at March 31, 2025, the assets held for sale comprised the following assets and liabilities:

	March 31, 2025	December 31, 2024
Property, plant and equipment	-	7.4
Assets held for sale	$ -	$ 7.4
Lease and other liabilities directly associated with assets held for sale	$ -	$ 0.3

7. Biological assets

Reconciliation of carrying amount

	Three months ended Mar. 31, 2025	Three months ended Mar. 31, 2024
Carrying value, beginning	$ 48.6	$ 49.3
Change in fair value due to growth and pricing	0.1	0.1
Harvested timber transferred to inventory	-	(0.1)
Disposals (Note 15)	(32.8)	-
Carrying value, March 31	$ 15.9	$ 49.3

At March 31, 2025, private timberlands comprised an area of approximately 8,399 hectares (December 31, 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 three months ended March 31, 2025, the Company harvested and scaled 5,358 cubic meters ("m^3") of logs (Q1 2024: 7,730 m^3), from its private timberlands, which had a fair value less costs to sell of $141 per m^3 at the date of harvest (Q1 2024: $121 per m^3).

8. Long-term debt

	Mar. 31, 2025	Dec. 31, 2024
Credit facility drawings	$ 26.0	$ 86.0
Less transaction costs	(0.4)	(0.5)
Long-term debt	$ 25.6	$ 85.5
Available Credit Facility	$ 250.0	$ 250.0
Credit Facility drawings	(26.0)	(86.0)
Outstanding letters of credit included in line utilization	(33.0)	(27.3)
Unused portion of Credit Facility	$ 191.0	$ 136.7

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. The maturity date of the Credit Facility is July 21, 2026. 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.

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

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

9. Employee future benefits

The Company has defined benefit plans that provide pension or other retirement benefits to certain of its salaried employees. The Company also provides other post-employment benefits and pension bridging benefits to eligible retired employees. The defined benefit pension plans were closed to new participants effective June 30, 2006. No further benefits accrue under these plans for years of service after December 31, 2010, and no further benefits accrue under these plans for compensation increases effective December 31, 2016.

The amounts recognized in the statements of financial position for the Company's employee future benefit obligations, consisting of both the defined benefit salaried pension plans and other non-pension benefits are as follows:

	Mar. 31, 2025	Dec. 31, 2024
Present value of obligations	$ 90.2	$ 89.8
Fair value of plan assets	(84.9)	(84.9)
Liability recognized in the statements of financial position (Note 10)	$ 5.3	$ 4.9

The change in the liability recognized in the statements of financial position at March 31, 2025 resulted primarily from a decrease in the discount rate used to value the defined benefit obligations, offset by lower returns on plan assets. The discount rate used as at March 31, 2025 was 4.39% per annum (December 31, 2024: 4.54% per annum). The Company expects to make funding contributions to its defined benefit plans of $1.2 million in 2025.

10. Other liabilities

	Current	Non-current	Total
As at March 31, 2025			
Defined benefit employee future benefits obligation (Note 9)	$ -	$ 5.3	$ 5.3
Defined contribution employee future benefits obligation	-	2.7	2.7
Environmental provision	0.2	2.2	2.4
Deferred share unit plan liabilities	1.2	-	1.2
Performance share unit plan liabilities	-	0.1	0.1
Restricted share unit plan liabilities	0.5	1.8	2.3
Other	-	0.3	0.3
	$ 1.9	$ 12.4	$ 14.3
As at December 31, 2024			
Defined benefit employee future benefits obligation (Note 9)	$ -	$ 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	1.0	-	1.0
Restricted share unit plan liabilities	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 statements of financial position.

11. Non-controlling interest

On March 27, 2024, the Company completed the sale of a 34% ownership interest in its newly formed La-kwa sa muqw Forestry Limited Partnership ("LFLP") to four Vancouver Island First Nations for gross proceeds of $35.9 million. The LFLP is comprised of certain assets and liabilities of the Company's former Mid-Island Forest Operation, including TFL 64, which was created through the subdivision of Block 2 of TFL 39. This is considered a transaction with owners in their capacity as owners, and because it did not result in a loss of control, the gain on disposal was recognized directly to retained earnings.

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

12. BC Manufacturing Jobs Fund

On February 28, 2025, the Company and the Province of British Columbia, 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 three months ended March 31, 2025, the Company accrued $1.4 million related to eligible expenditures incurred, which has been deducted from the carrying amount of the assets in construction.

13. Revenue

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

	Three months ended Mar. 31,	
	2025	2024
Primary geographic markets		
United States	$ 102.4	$ 68.8
Canada	95.5	91.1
Japan	21.5	39.2
China	19.1	19.5
Other	18.4	18.0
Europe	5.6	2.9
	$ 262.5	$ 239.5
Major products and services		
Lumber	$ 210.2	$ 177.6
Logs	33.5	45.1
By-products	10.9	10.5
Forestry services and other	7.9	6.3
	$ 262.5	$ 239.5

14. Operating restructuring items

	Three months ended Mar. 31,	
	2025	2024
Retirement and other benefits recovery	$ -	$ 0.2
Curtailment costs	(0.3)	-
	$ (0.3)	$ 0.2

15. Other income

	Three months ended Mar. 31,	
	2025	2024
Gain on sale of private timberlands	$ 23.7	$ -
Gain on sale of assets held for sale	0.2	-
Gain on sale of property, plant and equipment	-	0.2
Foreign exchange gains	0.3	1.7
Other	0.1	(0.1)
	$ 24.3	$ 1.8

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.

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

16. Income taxes

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

	Three months ended Mar. 31, 2025	Three months ended Mar. 31, 2024
Income (loss) before income taxes	$ 13.7	$ (17.4)
Income tax expense (recovery) at statutory rate of 27%	$ 3.7	$ (4.7)
Difference in jurisdictional tax rates	0.2	(0.1)
Difference in basis and capital inclusion rates	(3.9)	-
Other permanent differences	(0.1)	(1.2)
Realization of previously unrecognized valuation allowance	-	(3.4)
	$ (0.1)	$ (9.4)
Recognized in Other comprehensive income (loss)		
Deferred tax expense	$ (0.2)	$ (0.1)
Recognized in Retained earnings		
Deferred tax expense	$ -	$ 6.8

17. Earnings (loss) per share

Earnings (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:

	Three months ended Mar. 31, 2025			Three months ended Mar. 31, 2024		
	Net earnings 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 period		316,745,557			316,745,557	
Effect of shares:						
Issued in the quarter		-			-	
Basic earnings (loss) per share	$ 14.0	316,745,557	$ 0.04	$ (7.7)	316,745,557	$ (0.02)
Effective of dilutive securities:						
Stock options		-			-	
Diluted earnings (loss) per share	$ 14.0	316,745,557	$ 0.04	$ (7.7)	316,745,557	$ (0.02)

Where the addition of stock options to the total shares outstanding has an anti-dilutive impact on the diluted loss per share calculation, those stock options have not been included in the total shares outstanding for purposes of the calculation of diluted loss per share.

18. Commitments and contingencies

(a) Softwood lumber duty dispute

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

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

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

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

18. Commitments and contingencies (continued)

(a) Softwood lumber duty dispute (continued)

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

As cash deposit rates exceeded final duty rates for lumber shipments made in 2017 through 2022, the Company recognized a long-term interest-bearing duty receivable totalling USD$47.3 million ($68.1 million) in its statements of financial position. During the three months ended March 31, 2025, export tax expense on CV and AD duties of $8.3 million (Q1 2024: $4.0 million) was recorded in the statement of comprehensive income.

On February 21, 2025, the DoC initiated its seventh AR of CV and AD for shipments in 2024, with a completion deadline of January 31, 2026.

On March 3, 2025, the DoC announced its preliminary determination for AD rates resulting from its sixth AR for shipments in 2023, indicating a rate of 20.07%, compared to the current rate of 7.66%. On April 4, 2025, the DoC announced its preliminary determination for CV rates resulting from its sixth AR for shipments in 2023, indicating a rate of 14.38%, compared to the current rate of 6.74% for a combined preliminary rate of 34.45%, compared to the current combined rate of 14.40%. The DoC may revise these rates between the preliminary and the final determination, which is expected to be released in the third quarter of 2025. If the final sixth AR rates are unchanged from the preliminary sixth AR rates, Western will record a non-cash export tax expense of USD$43.0 million, plus accrued interest of approximately USD$7.0 million, when the final sixth AR rates are published. Cash deposits continue at the combined duty rate of 14.40% until the final determinations are published, after which the final AR6 rate will apply.

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. 19, 2024 onward	Aug. 1, 2023 through Aug. 18, 2024	Aug. 9, 2022 through Jul. 31, 2023
Cash deposit rate			
CV	6.74%	1.79%	3.83%
AD	7.66%	6.26%	4.76%
Combined	14.40%	8.05%	8.59%

Lumber shipment year	AR6 2023 Preliminary	AR5 2022 Final	AR4 2021 Final
Duty rate			
CV	14.38%	6.74%	1.79%
AD	20.07%	7.66%	6.26%
Combined	34.45%	14.40%	8.05%

As at March 31, 2025, including interest of USD$10.9 million (December 31, 2024: USD$10.2 million), the duty receivable of USD$58.2 million (December 31, 2024: USD$57.5 million) was revalued at the period-end exchange rate to $83.8 million (December 31, 2024: $82.7 million) and is recorded in other assets on the consolidated statement of financial position.

Interest revenue of $1.0 million was recorded in finance costs during the three months ended March 31, 2025 (Q1 2024: $1.0 million). A negligible foreign exchange gain was recorded in other income during the three months ended March 31, 2025 (Q1 2024: foreign exchange gain of $1.5 million).

As at March 31, 2025, the Company had paid USD$190 million ($273 million) of duties, all of which remain held in trust by US Department of Treasury (December 31, 2024: USD$184 million ($264 million)). With the exception of USD$47.3 million ($68.1 million) of duty deposits recognized as a receivable, all duty deposits have been expensed at the cash deposit rates in effect at the date of payment.

18. Commitments and contingencies (continued)

(b) Incremental US Tariffs

On February 1, 2025, US President Donald Trump signed an executive order imposing a tariff of 25% (the "Incremental US Tariff") on imported goods from Canada to the US with an originally planned implementation date of February 4, 2025. On February 3, 2025, the implementation date was delayed to March 4, 2025. The Incremental US Tariff was implemented on March 4, 2025, and was in place until March 6, 2025, when it was delayed for certain Canadian goods compliant with existing free trade agreements, including the Company's exports to the US, until April 2, 2025. On April 2, 2025, the exemption was extended indefinitely. The Incremental US Tariff is in addition to the existing combined US softwood lumber CV and AD rates of 14.40% which the Company is currently subject to. During the three months ended March 31, 2025, export tax expense of $0.7 million was recorded in the statements of comprehensive income in relation to the Incremental US Tariffs.

On March 1, 2025, US President Donald Trump signed an executive order initiating an investigation to determine whether imports of timber, lumber and their derivative products threaten to impair US national security, citing Section 232 of the Trade Expansion Act. The executive order requires the Secretary of Commerce to issue a report within 270 days that includes findings on whether imports of timber, lumber and their derivative products threaten national security, recommendations on actions, including potential tariffs, export controls or incentives to increase domestic production and policy recommendations to strengthen US timber and lumber supply. The Secretary of Commerce set a deadline of April 1, 2025 to receive public comment on the investigations.

(c) Litigation and claims

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

(d) Long-term fibre supply agreements

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 to date, the Company believes it has satisfied fibre commitments as at March 31, 2025. The Company anticipates satisfying annual fibre commitments for the year ending December 31, 2025. The Company has recorded consideration received as part of the long-term fibre supply agreements as deferred revenue, which is recognized straight-line over the term of the contract. The Company recognized related revenue of $0.6 million for the three months ended March 31, 2025 (Q1 2024: $0.5 million).

19. Financial instruments – fair values and risk management

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. The Company's non-derivative financial liabilities are measured at amortized cost using the effective interest method.

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 that are observable for the assets or liability, either directly or indirectly; or
- Level 3: inputs for the asset or liability that are not based on observable market data.

The Company's financial instruments held at fair value consist of the export tax and related interest receivable (Note 18(a)), which are classified as Level 3 within the fair value hierarchy.

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

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

The Company enters into forward contracts to sell USD and Japanese Yen (“JPY”) in order to mitigate a portion of the foreign currency risk. As at March 31, 2025, the Company had outstanding obligations to sell an aggregate USD$14.0 million at an average exchange rate of CAD$1.4349 per USD with maturities through April 17, 2025 (December 31, 2024: USD$12.0 million at an average exchange rate of CAD$1.4369 per USD).

All foreign currency gains or losses related to currency forward contracts have been recognized in revenue for the period as described in the following table.

	Three months ended Mar. 31,	
	2025	2024
Foreign currency gains (losses) recognized in revenue	$ 0.1	$ (0.3)

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

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