



TimberWest

TIMBERWEST FOREST CORP.

ANNUAL INFORMATION FORM

DATED MARCH 15, 2002

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GLOSSARY

In this Annual Information Form, unless the context otherwise requires:

“**AAC**” or “**Allowable Annual Cut**” means the annual harvest level determined by the Chief Forester of British Columbia with respect to TFLs, Forest Licences or private timberlands within a TFL;

“**Annual Harvest Rate**” means the volume of timber harvested by TimberWest from its Private Timberlands outside of TFLs in a given year;

“**affiliate**” means an affiliate within the meaning of the *Securities Act* (British Columbia);

“**Best Management Practices**” as defined by the Private Forest Landowners Association handbook, means forest management practices in general usage referring to any good forest stewardship practices;

“**Bowater**” means Bowater Pulp and Paper Canada Inc., formerly Avenor Inc.;

“**Common Shares**” means the common shares in the capital of the Company;

“**Company**” means TimberWest Forest Corp.;

“**Company Act**” means the *Company Act* (British Columbia);

“**Crown**” means Her Majesty the Queen in Right of the Province of British Columbia;

“**Distributable Cash**” includes consolidated earnings before income taxes less current income taxes plus depreciation, depletion and amortization, plus proceeds from the sale of capital assets net of their gain (loss) on sale, less maintenance capital expenditures and from time-to-time adjustments for other items deemed appropriate by the Board of Directors. The aggregate annual amount of interest on the Series A Subordinate Notes outstanding at March 15, 2002 is \$81.8 million which is paid from distributable cash and any deficiency could be paid from the available bank facilities;

“**Doman**” means Doman Forest Products Limited, a wholly-owned subsidiary of Doman Industries Limited;

“**Economic Rotation**” means, with respect to a particular growing site, the number of years from the time a stand of trees is established for the average tree within the stand to reach the size which maximizes economic return through sales and manufacturing;

“**Forest Act**” means the *Forest Act* (British Columbia);

“**Forest Practices Code**” or the “**Code**” means the *Forest Practices Code of British Columbia Act*;

“**Harvest Rotation**” means, with respect to a particular growing site, the number of years from the time a stand of trees is established to the time at which the stand is harvested;

“**hectare**” means a metric measure of area equivalent to 10,000 square metres or approximately 2.471 acres;

“**ISO 14001**” is an independent third party certification that confirms that TimberWest’s internal Environmental Management system meets internationally accepted standards for protecting environmental values, and that the system is properly maintained and applied by TimberWest;

“**Land Reserve Commission**” is a commission established by the province of British Columbia for the purpose of administering the *Agricultural Reserve Act*, the *Forest Land Reserve Act*, and the *Private Land Forest Practices Regulation*;

“**Long-Run Sustainable Yield**” means a predictable and stable annual volume that balances timber growth and timber harvest over an extended period of time under certain assumptions. TimberWest’s long-run sustainable yield is based on a 100-year period and reflects assumptions associated with regeneration, age class distribution, expected growth rates, and environmental and economic considerations. This is distinct from Annual Harvest Rate, which can vary from year-to-year depending on economic and other circumstances;

“**Managed Forests**” means private timberlands so classified by the British Columbia Assessment Authority pursuant to the *British Columbia Assessment Act (Forest Land) Regulation*;

“**Management Plan**” means a comprehensive five-year plan covering Crown timber tenures prepared by a registered professional forester containing inventories and analyses of timber and non-timber resource values, strategies for management and protection of those values and calculation of the proposed timber harvest level;

“**m³**” means cubic metres;

“**Merchantable Timber**” means timber that is ready for harvest under current operating conditions;

“**Merchantable Timber Inventory**” means, in respect of a particular tenure or area, the volume of Merchantable Timber which can be commercially recovered at the present time;

“**Ministry of Forests**” refers to the Ministry of Forests of British Columbia;

“**mm³**” means thousands of cubic metres;

“**mmfbm**” means millions of foot board measures, a foot board measure being one square foot of lumber, one inch thick;

“**NSCL**” means Norske Skog Canada Limited, formerly Fletcher Challenge Canada Limited;

“**Pacific**” means Pacific Forest Products Limited, a wholly-owned subsidiary of the Company;

“**Pacific Timberlands**” means the 124,000 hectares (305,000 acres) of private timberlands owned in fee simple by PFP Forest;

“**PFLA**” means the Private Forest Landowners Association of British Columbia;

“**PFP Forest**” means PFP Forest Ltd., a wholly-owned subsidiary of Pacific;

“**Preferred Shares**” means the preferred shares in the capital of the Company;

“**Private Land Forest Practices Regulation**” means the regulation made under the *Forest Land Reserve Act* (British Columbia) that applies to privately owned land that is managed forest land under the *Assessment Act* (British Columbia). The regulation is administered by the British Columbia Land Reserve Commission and addresses four key public environmental values: soil conservation, fish habitat, water quality and critical wildlife habitat;

“**Private Timberlands**” means the 334,000 hectares (825,000 acres) of private timberlands on Vancouver Island, British Columbia owned in fee simple by TFL Forest and PFP Forest;

“**Real Estate Properties**” means properties that TFL Forest and Pacific own in fee simple and which may have a higher value than their values as timberland; the Real Estate Properties currently consist of approximately 6,500 hectares;

“**Silviculture Prescriptions**” are prescriptions prepared under the direction of a registered professional forester for an area of forest prior to harvesting, which set out the various resource values found in the forest, how such values are to be protected, how and when harvesting is to take place, and the targets and commitments made by the operator for renewing the forest;

“**Stapled Units**” means a unit consisting of one Common Share, 100 Preferred Shares and one Subordinate Note Receipt;

“**Subordinate Notes**” means the subordinate notes of the Company issued pursuant to the indenture dated September 30, 1998 between the Company and Montreal Trust Company of Canada (now Computershare Trust Company of Canada) in its capacity as trustee for the holders of the subordinated notes of the Company;

“**Subordinate Note Receipt**” means the receipts issued by Montreal Trust Company of Canada (now Computershare Trust Company of Canada) in its capacity as custodian of the Subordinate Notes, each of which represents a unit of Subordinate Notes having an aggregate face amount of \$8.978806569 which entitles the holder to \$1.077456788 of interest per annum and other entitlements;

“**Sustainable Forest Management Certification**” is an independent third party certification that confirms that TimberWest’s forest management practices meets the standards for sustainable forest management established by the American Forest and Paper Association under its Sustainable Forestry Initiative (SFI)SM Program;

“**TFL**” means a Tree Farm Licence, a form of timber tenure in British Columbia that includes Crown lands and often private timberlands or other tenures owned by the licence holder;

“**TFL 46**” means Tree Farm Licence No. 46, which is located on southwestern Vancouver Island;

“**TFL 47**” means Tree Farm Licence No. 47, which is located on eastern Vancouver Island, Johnstone Strait and the Queen Charlotte Islands, British Columbia;

“**TFL Forest**” means TFL Forest Ltd., a wholly-owned subsidiary of the Company;

“TimberWest” means the Company together with TFL Forest and Pacific and its subsidiaries, all of which are wholly-owned subsidiaries of the Company; and their respective interests in partnership;

“Trust” means TimberWest Timber Trust;

“Trust Units” means the units of the Trust, each unit representing an equal undivided beneficial interest in the Trust;

“Unitholders” means the holders from time to time of one or more Stapled Units; and

“Variable Retention” means a forest management system offering an ecologically and visually sensitive harvesting alternative to clearcuts.

ANNUAL INFORMATION FORM

(with respect to the period from January 1, 2001 to December 31, 2001)

Dated as of March 15, 2002

TIMBERWEST FOREST CORP.

INCORPORATION

TimberWest Forest Corp. ("the Company") was established on January 31, 1997 under the laws of British Columbia. The Company owns all of the issued shares of TFL Forest and Pacific and the Company, together with its subsidiaries and their respective interests in partnerships, is collectively referred to herein as "TimberWest". The Company is one of Canada's largest businesses operating exclusively in the solid wood segment of the forest industry. It operates entirely in the coastal region of British Columbia, where it is engaged primarily in the harvesting and sale of logs. In order to optimize the value realized from its fibre resource and private land base, the Company is also engaged in the processing and sale of softwood lumber and the monetization of its Real Estate Properties. TimberWest owns in fee simple approximately 334,000 hectares (825,000 acres) of Private Timberland, one lumbermill, rights to Crown timber tenures from the Province of British Columbia and approximately 6,500 hectares of Real Estate Properties. The Company's principal office is located at 2300 – 1055 West Georgia Street, Vancouver, British Columbia, V6E 3P3.

COMPANIES COMPRISING TIMBERWEST

The Company was incorporated under the *Company Act* on January 31, 1997 under the name 535950 British Columbia Ltd. and changed its name to TAL Acquisition Ltd. on February 27, 1997, to TimberWest Forest Holdings Ltd. on June 9, 1997, to TimberWest Forest Management Limited on January 30, 1998 and to TimberWest Forest Corp. on September 30, 1998.

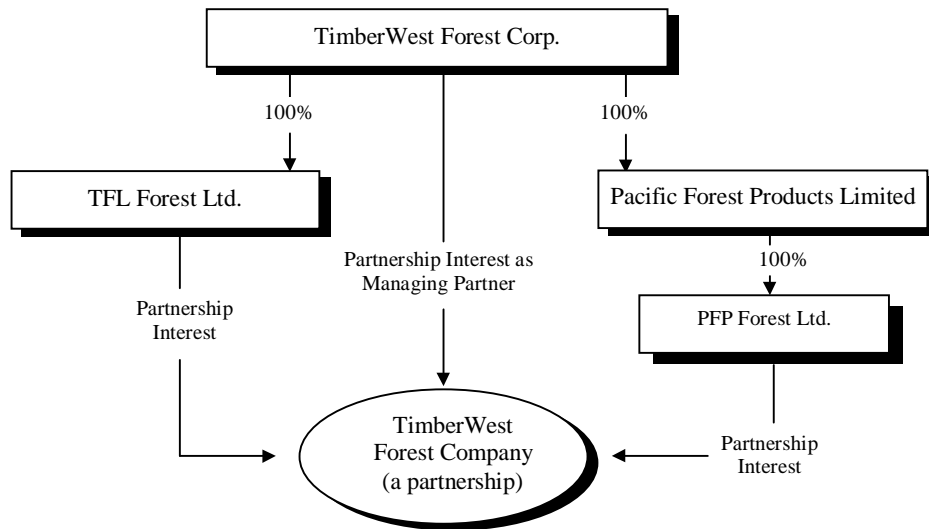
A predecessor of TFL Forest was incorporated under the *Company Act* on January 8, 1987 under the name Pinette & Therrien Mills (1987) Ltd. and changed its name to TimberWest Forest Limited on October 14, 1993 and was amalgamated pursuant to an arrangement under the *Company Act* on June 23, 1997. On September 30, 1998 TimberWest Forest Limited changed its name to TFL Holdings Ltd. and on October 5, 1998 to TFL Forest. Prior to December 1993, the assets of TFL Forest were owned by NSCL and its subsidiaries and TFL Forest did not carry on any active business.

A predecessor of Pacific was incorporated under the *Company Act* on November 12, 1992 under the name No. 250 Taurus Ventures Ltd. and changed its name to Pacific Forest Products Limited on June 3, 1993. Pacific was amalgamated pursuant to an arrangement under the *Company Act* on December 10, 1997. Prior to July 1993, Bowater and its subsidiaries owned the assets of Pacific.

PFP Forest Ltd. was incorporated under the *Company Act* on May 3, 1994 under the name 472162 B.C. Ltd. and changed its name to Pacific Forest Products (1997) Limited on August 11, 1997 and to PFP Forest Ltd. on February 25, 1998. PFP Forest is a wholly-owned subsidiary of Pacific.

The legal structure of the operating businesses of the Company's indirect subsidiaries, TFL Forest and Pacific, were reorganized in March 1998 into a corporate partnership called TimberWest Forest Company. TimberWest Forest Corp. serves as the managing partner of TimberWest Forest Company.

The following diagram illustrates the legal structure of the Company and its subsidiaries.



Note: All corporations are governed by the *Company Act*.

GENERAL DEVELOPMENT OF THE BUSINESS

On June 23, 1997, the Company completed the acquisition of all of the issued shares of TFL Forest for aggregate cash consideration of \$674.1 million, plus costs of acquisition of approximately \$2.0 million. At the time the Company completed the acquisition of TFL Forest, Slocan Forest Products Ltd. and Riverside Forest Products Limited purchased the operations of TFL Forest at Mackenzie and Williams Lake, British Columbia, respectively, for total consideration of approximately \$250.0 million, and the Trust acquired all of the securities of the Company.

On December 10, 1997, the Company completed the acquisition of all of the issued shares of Pacific for aggregate cash consideration of \$572.6 million, plus costs of acquisition of approximately \$32.1 million. Just prior to completion of the Company's acquisition of Pacific, Doman purchased all the lumbermill operations and Crown timber tenures of Pacific for approximately \$143.8 million (before a working capital adjustment in favour of TimberWest of approximately \$30.0 million).

In July 1998, the Board of Directors of the Company approved an increase in the long-run sustainable yield on TimberWest's Private Timberlands from 1.8 million m³ to 2.4 million m³ per year. The change was based upon a study conducted by TimberWest and confirmed by the consulting firm of Mason, Bruce and Girard of Portland, Oregon. TimberWest's long-run sustainable yield is established based on assumptions associated with regeneration, age class distribution, expected growth rates, and environmental and economic considerations and incorporates TimberWest's objective to manage the Private Timberlands on a long-term sustainable basis. This 33% increase in sustainable yield represents a significant increase in value to Unitholders since the margins earned from the Private Timberlands are significantly higher than from Crown timber tenures.

On September 30, 1998, unitholders and installment receipt holders of the Trust approved a reorganization of the Trust and the Company. The reorganization involved the exchange of existing Trust Units with a new "stapled" security of the Company on a one-for-one basis. As part of this reorganization, TimberWest Forest Management Limited changed its name to TimberWest Forest Corp. The Stapled Units began trading on The Toronto Stock Exchange (the "TSE") under the symbol TWF.UN on October 6, 1998. The Trust Units ceased to be listed on the TSE and the Vancouver Stock Exchange on October 9, 1998.

On January 26, 1999, TimberWest Forest Corp. reached a significant land trade agreement with the Province of British Columbia. The agreement called for the transfer of 1,394 hectares of land from TimberWest to the Province for the purpose of establishing new parks and also the transfer of a further 636 hectares of other Private Timberlands for park and watershed related purposes. In exchange for these lands and the largely old growth timber volumes on them, TimberWest was permitted to remove approximately 60,000 hectares of its Private Timberlands from its two TFLs, leaving only 3,550 hectares under this form of tenure. This arrangement permits

TimberWest to have the same operating flexibility on these lands as the 274,000 hectares of its Private Timberlands which were never placed within TFLs. TimberWest also received about 3,300 hectares of newly-privatized Crown lands consisting largely of young stands of timber and approximately \$0.5 million cash. This agreement allowed for full integration of all TimberWest's private land operations, resulting in planning and operating efficiencies that were not achievable previously. In addition, because these lands are no longer subject to government cut control provisions, TimberWest has much greater flexibility in achieving its long-run sustainable yield of 2.1 million to 2.4 million m³ per year.

During 1999, TimberWest reached an agreement with an affiliate of J.S. Jones Timber Ltd. ("Jones") whereby Jones will act as independent contractor for the direction and management of TimberWest's Sandspit operations. Under the agreement, TimberWest has retained ownership of its Crown tenures and Jones has purchased the machinery and equipment and undertaken the forestry and harvesting activities of these operations. Jones will also employ the existing staff and hourly employees. TimberWest had previously announced its decision to sell the Sandspit operations to Jones pending tenure transfer by the Ministry of Forests. Approval of the transfer is a lengthy process due to the required governmental consultations with First Nations. Upon completion of these consultations, the provincial government will be in a position to make a decision on the application to transfer the Crown tenures to Jones.

On July 14, 1999, all outstanding Trust Units which had not been previously exchanged for Stapled Units, except those held by the Company, were called for redemption by the Trust. The Trust ceased to be a reporting issuer as of October 13, 1999.

On May 20, 2000, the Company purchased 4,782,024 Stapled Units pursuant to a substantial issuer bid dated April 19, 2000 and expiring at midnight on May 10, 2000. The Company paid \$10.80 per Stapled Unit deposited under the bid for an aggregate purchase price of approximately \$51.6 million, incurred related costs of \$0.8 million and has charged \$0.6 million of the buy back to distributions for a net purchase price of \$51.8 million.

On November 22, 2000, Paul McElligott, former President and Chief Executive Officer of the BC Rail Group of Companies and member of the TimberWest Board of Directors since 1997, was appointed President and Chief Executive Officer of the Company effective January 22, 2001.

On January 31, 2001, the Company closed its Cowichan Lumbermill in Youbou, British Columbia. The Company will continue to operate on TFL 46 according to approved Forest Development Plans. The Company had previously announced its decision to sell its rights to TFL 46, the associated harvesting operations, and the Cowichan Lumbermill. As a result of the decision to sell these operations, the assets of TFL 46 and the Cowichan Lumbermill were written down in 1999 by \$24.7 million to reflect their estimated net realizable value.

Recent Developments

In February 2002, the Company completed a bought deal public offering through a syndicate of underwriters of 11,190,650 Stapled Units at a price of \$12.85 per Stapled Unit, for gross proceeds of \$143.8 million. Net proceeds of the offering of approximately \$136.3 million will be used to reduce indebtedness under the Company's outstanding credit facilities.

BUSINESS OF TIMBERWEST

Overview of TimberWest's Business

The business of TimberWest has been owned and managed for over 80 years by the Company, or by NSCL, Crown Forest Industries Limited and their predecessors. Pacific and its predecessors have owned and managed its private timberlands for over 40 years. TimberWest's operations are conducted in the coastal region of British Columbia, where TimberWest owns in fee simple approximately 334,000 hectares (825,000 acres) of Private Timberlands and one lumbermill, and has rights to substantial Crown timber tenures. TimberWest also owns approximately 6,500 hectares (16,000 acres) of Real Estate Properties. TimberWest also engages in log marketing and trading activities to realize the maximum value from its logs.

TimberWest is focused primarily on maximizing the value realized from its Private Timberlands and Crown timber tenures by: (1) harvesting logs in a cost-effective manner consistent with sound environmental and sustainable forestry practices; (2) selling logs to targeted customers in both the domestic and higher value export markets; and (3) optimizing the value realized from small and second growth logs by manufacturing, in TimberWest's lumbermill, high-quality structural building components primarily for the Asia-Pacific residential housing market. In addition, TimberWest realizes the value of its Real Estate Properties through property sales or exchanges.

Access to long-term, sustainable, high-quality timber resources is an important competitive element in the solid wood segment of the forest industry. Through intensive silviculture and modern sustainable forest management practices, TimberWest is committed to maintaining, protecting and improving the productivity of its forest resource while protecting key environmental values. TimberWest has ISO 14001 certifications for all of its operations, both forestry and facilities. TimberWest's Private Timberlands have also been awarded Sustainable Forest Management Certification under the American Forest and Paper Association's Sustainable Forestry Initiatives (SFI)SM Program. The Private Timberlands are the largest holdings of private timberlands in British Columbia. At the current long-run sustainable yield of between 2.1 million and 2.5 million m³ per year, the Private Timberlands account for approximately 60% of TimberWest's total annual log harvest. The Forest Practices Code does not apply to harvest levels from private timberlands outside of TFLs and no stumpage is payable on logs harvested from private timberlands. The Crown timber tenures provide annual harvest volumes of approximately 1.2 million m³ of logs. In 2001, 52% of the harvest from Crown tenures was consumed for processing in TimberWest's Elk Falls Lumbermill, with the remainder sold to other manufacturers in British Columbia. TimberWest's total current annual log harvest is approximately 3.6 million m³.

Sawlogs are sold to both domestic and international customers. TimberWest is obligated, under various contracts with NSCL and Doman, to make certain volumes available to operators of lumbermills and shingle mills who provide wood chips to NSCL for use in their pulpmills and to Doman for processing in Doman's lumbermills. In addition, as opportunities arise, a certain volume of sawlogs harvested from the Private Timberlands are exported to higher value markets. TimberWest's entire pulplog production is committed to NSCL. All log sales and chip supply transactions under the various agreements with Doman and NSCL are at prevailing market prices in the Vancouver log market. See "Forest Management - Fibre Supply Agreements".

TimberWest's lumbermill complex at Elk Falls on Vancouver Island, operating at capacity, consumes approximately 0.7 million m³ of logs annually. The total current two-shift capacity annual lumber and chip production capacity of Elk Falls Lumbermill is 115 mmfbm and 200 mm³, respectively. Lumber is shipped largely to offshore markets, primarily Japan, but also to other markets such as Belgium and Australia. For the year ended December 31, 2001 lumber production totalled 130 mmfbm and wood chip production totalled 195 mm³ (includes totals for the Cowichan Lumbermill which was closed on January 31, 2001). Lumber sales for the same period were predominantly hemlock and Douglas fir specialty and dimension lumber, of which, by volume, 42% was shipped within Canada, 50% to Japan and 8% to other destinations. All of the wood chip production is committed to NSCL under various long-term supply arrangements at prevailing market prices.

Forest Resources

Overview of Forest Resources

The following table shows the long-run sustainable yield from the Private Timberlands, the AAC from TFLs and Forest Licences, and the annual harvest levels on Timber Licences outside of TFLs:

<u>Forest Resources</u>	<u>mm³</u>	<u>% of Total</u>
Private Timberlands	2,100 – 2,400	63-67
TFL 46 ⁽¹⁾⁽²⁾⁽³⁾	463	12-14
TFL 47 ⁽¹⁾⁽²⁾⁽⁴⁾	599	16-18
Timber Licences ⁽¹⁾⁽²⁾⁽⁵⁾	100	3
Forest Licences ⁽⁴⁾	64	2
Total	3,326 – 3,726	100

- (1) AAC determinations for Crown tenures include waste and residue.
- (2) Annual harvest from Timber Licences within the boundaries of the TFLs is included with the AAC of the TFLs.
- (3) TimberWest closed the Cowichan Lumbermill effective January 31, 2001. Harvests from TFL 46 were not tied to the continued operation of the Cowichan Lumbermill.
- (4) Certain of the Company's Crown tenures are subject to an asset purchase agreement awaiting the Ministry of Forests' approval. AAC related to these tenures of approximately 116 mm³ has been excluded from this summary of forest resources.
- (5) The rate of harvest on Timber Licences is at the discretion of the licensee. Over the past ten years, in excess of 100 mm³ has been harvested annually.

Private Timberlands

The Private Timberlands are subject to the same property taxation regime as other Crown-granted land in its class. In 2001 and 2000, property taxes on the Private Timberlands were \$6.2 million and \$5.8 million, respectively, or approximately \$2.82 per m³ and \$2.74 per m³ harvested, respectively.

In contrast to non-renewable natural resources, such as minerals and oil and gas, timber resources can be managed on a sustainable basis to yield a predictable and stable volume of timber over an indefinite period of time. Continuous biological growth allows for flexibility in timing the harvesting of timber in order to take advantage of market conditions. The Private Timberlands are among the most productive growing sites in British Columbia, with a natural stand average annual growth rate of 7.2 m³ per hectare compared to the provincial average of 2.5 m³ per hectare. Economic Rotations range between 45 and 65 years on most of the Private Timberlands with an overall average Harvest Rotation of approximately 60 years. Productivity is being enhanced by intensive forest management practices such as genetic improvement and late-rotation forest fertilization.

Through a value for value exchange with the Province of British Columbia, most of the 61,300 hectares of Private Timberlands previously held within TFLs were removed in early 1999. Currently only 3,500 hectares of the Private Timberlands remain within TFL 46 and TFL 47. There are no government imposed harvest levels for the approximately 326,500 hectares of Private Timberlands that are outside TFLs. TimberWest has established the long-run sustainable yield for the Private Timberlands at 2.1 million to 2.5 million m³ per year. This yield level reflects the Company's current assumptions, and builds on a 1998 independent assessment by the consulting firm of Mason, Bruce and Girard which confirmed 2.4 million m³ as the sustainable yield. Market conditions may dictate changes to the actual volume of timber harvested in a particular year.

Benefits of Private Timberlands. Private timberlands provide a number of advantages over Crown timber tenures in British Columbia.

- ***Absence of Stumpage and Costs.*** Stumpage and costs for logs harvested from Crown lands have risen significantly over the last few years, while private timber is stumpage free. During 2001, stumpage costs for coastal British Columbia averaged approximately \$16 per m³. As a result, the Private Timberlands have a significant value differential, and will provide a strategic hedge against further increases in stumpage costs.
- ***Flexibility in Customer Selection and Export Markets.*** The Private Timberlands are not tied to any particular manufacturing facility, except through the fibre supply agreements with NSCL and Doman. See "Forest Management - Fibre Supply Agreements". As a result, TimberWest has the ability to direct logs from the Private Timberlands to selected customers, subject to those fibre supply agreements. In addition, logs from Crown timber tenures are not generally exported from British Columbia due to the restrictions

associated with Crown timber tenures. TimberWest has the ability to export logs from its Private Timberlands to the higher value export log markets.

- *Harvest Flexibility.* Although Crown tenures have a certain amount of volume flexibility on an annual basis, Private Timberlands afford full flexibility with regard to volumes harvested and selection of harvest areas. As a result, the Private Timberlands can be managed to better match harvest levels and specific timber stands with current market conditions and the needs of specific customers. In addition, because no government pre-approval of harvest plans is required, timely and low-cost solutions can readily be implemented to address specific community interests or to benefit from specific market opportunities.
- *Absence of Administrative Costs Associated with the Forest Practices Code.* The Private Timberlands held outside of Crown timber tenures are not subject to the Forest Practices Code and the associated administrative burden. The Forest Practices Code sets standards of performance for forest practices, establishes planning procedures and sets a range of activity-specific penalties for non-performance and applies to Crown lands and private timberlands within TFLs. Operating in coastal British Columbia, the average cost of complying with the process-driven Forest Practices Code is estimated at \$20 per m³. The Private Timberlands, however, are subject to a set of results-based environmental protection and reforestation regulations developed jointly by the government and the PFLA, which came into effect in April 2000. These regulations protect the key public values of fish habitat, water quality, soil conservation and critical wildlife habitat. Compliance with these guidelines can be achieved at significantly lower cost to TimberWest while maintaining high standards of forest management.

Inventory. TimberWest's management believes that the biological yield for the Private Timberlands exceeds 2.4 million m³ per year under basic forest management practices. The total Merchantable Timber Inventory on the Private Timberlands is currently estimated to be 41.2 million m³. The age distribution on the Private Timberlands is such that increasing amounts of second growth Douglas fir will become Merchantable Timber over the next ten years. Most of this maturing second growth timber is located in lower elevation areas which have existing road systems and can be logged at relatively lower cost due to the moderate harvesting terrain.

Of the 334,000 hectares that make up the Private Timberlands, approximately 45,200 hectares are either non-productive, inoperable or uneconomic to harvest at this time. As logging technologies change, or if log prices increase, portions of these uneconomic areas may be reclassified as economic, which would increase the total volume available for harvest.

Most of the Private Timberlands are classified as Managed Forests under the *Assessment Act* (British Columbia) which governs the taxation of privately owned lands and provides for a lower property tax rate for timberlands classified as Managed Forests.

Second Growth. The Private Timberlands contain a significant component of second growth timber. Combined with its harvest of second growth timber from Crown timber tenures, TimberWest is the largest harvester of second growth timber on the coast of British Columbia. Second growth stands offer a more consistent quality of timber and a lesser component of lower value pulplogs. In addition, harvesting costs are also generally lower because second growth areas are closer to transportation points, are located in easier harvesting terrain and are accessible by established road systems. For the year ended December 31, 2001, approximately 58% of the harvest from the Private Timberlands was derived from second growth which was established through natural seeding or plantations. It is expected that volumes of plantation wood will increase as stands move into harvestable age classes of 45 to 65 years old.

The following table illustrates the approximate age class distribution of trees on the Private Timberlands.

<u>Age Class Distribution as at December 31, 2001</u> (years)	<u>Hectares</u> ⁽¹⁾ (in thousands)	<u>%</u>
0-9	30.0	9
10-19.....	27.7	8
20-29.....	39.4	12
30-39.....	47.1	14
40-49.....	40.5	12
50-59.....	35.3	11
60-69.....	12.6	4
70-79.....	6.1	2
80-119.....	12.0	3
120+.....	37.9	11
Total Productive	288.8	86
Non-productive or Inoperable	45.2	14
Total Private Timberlands.....	334.0	100

(1) These figures include timber that is not currently merchantable. The current inventory of Merchantable Timber is estimated to be 41.2 million m³.

Douglas fir is the predominant species on the Private Timberlands, comprising approximately 58% of the total area. Douglas fir is a preferred species because it has a high degree of acceptance in export markets and trades at a premium over other species. For example, Douglas fir H grade sawlogs have experienced price premiums over hemlock H grade sawlogs of 79% and 75% for 2001 and 2000, respectively. Future volumes of Douglas fir will increase in proportion to the total harvest as plantations reach maturity. For the past 40 years, after the original harvest, the areas best suited to grow Douglas fir were intentionally replanted with Douglas fir to produce higher values. The proportion of Douglas fir available for harvest on the Private Timberlands greatly exceeds the average coastal British Columbia harvest of Douglas fir, which was approximately 24% of the total British Columbia coastal harvest volume, including harvests from Crown, private and federal lands (as reported by the Ministry of Forests for its fiscal year ended March 31, 2001).

The following table shows the approximate species distribution (by area) on the Private Timberlands.

<u>Tree Species Distribution as at December 31, 2001</u>	<u>% of Area</u>
Douglas fir	58
Hemlock.....	23
Balsam.....	7
Cedar	3
Other	9
Total	100

Crown Timber Tenures

Approximately 95% of all forest lands in the Province of British Columbia are Crown land. Under the *Forest Act* and the *Forest Practices Code*, the Ministry of Forests regulates forestry operations on these lands and uses a system of timber tenures to provide the private sector with controlled access to the forest resource.

The majority of the Crown timber tenures provide licence holders with long-term access to mature timber through renewable licences. The standards of management for these areas are guided by Management Plans and Forest Development Plans approved by the Ministry of Forests.

The species distribution, by standing volume, on TimberWest's TFLs is estimated to be approximately 61% hemlock/balsam, 20% Douglas fir, 11% western red cedar and 8% cypress, Sitka spruce and other. For the year ended December 31, 2001 approximately 74% of TimberWest's production from Crown tenures was from second growth timber stands. These stands provide benefits similar to those provided by second growth stands

located within Private Timberlands, including established road systems and lower harvesting costs because of generally moderate harvesting terrain.

TimberWest's Crown timber tenures currently have an AAC of approximately 1.2 million m³. About 3,500 hectares of private lands remain within TFLs. The Company's Crown timber tenures consist of two TFLs, three small Forest Licences and several Timber Licences. The Crown charges a stumpage fee on timber harvested from Crown lands.

Tree Farm Licences. TFLs are area-based tenures granted for a term of 25 years and replaceable after five years for a further 25-year term subject to satisfactory performance by the licensee of its cutting and reforestation obligations as determined by the Ministry of Forests. The licensee undertakes to manage the area of Crown timberlands, including the licensee's private timberlands and Timber Licences within the boundaries of the TFL, to harvest an AAC as determined periodically by the provincial Chief Forester. TimberWest holds two TFLs (TFL 46 and TFL 47).

TFL 46 was renewed effective July 1, 1997 for a period of 25 years. An offer by the Ministry of Forests for a replacement to TFL 46 is currently under review by TimberWest. TFL 47 was renewed effective March 1, 2001 for a term of 25 years.

Forest Licences. Crown timberlands which have not been designated as TFLs are organized into timber supply areas. Forest Licences are then issued within each timber supply area with the overall harvest for each timber supply area managed by the Ministry of Forests on a sustainable yield basis.

Forest Licences are volume-based tenures which authorize a specified volume of timber to be cut within a specified timber supply area. Forest Licences have a term of 15 years and are generally replaceable every five years for a further 15 years subject to satisfactory performance by the licensee of its cutting and reforestation obligations as determined by the Ministry of Forests. TimberWest holds three replaceable Forest Licences which were last renewed in 1998.

Timber Licences. TimberWest holds Timber Licences both within and outside of TFL 46 and TFL 47. Timber Licences are area-based tenures and are located within either a timber supply area or a TFL. Historically, a royalty fee was charged by the Crown on timber harvested on Timber Licences. However, in April 1995 the British Columbia provincial government eliminated the royalty for Timber Licences and replaced it with stumpage, which was initially set at 60% of regular stumpage on other Crown timber tenures and has moved, in equal increments over a period of six years, to 100% of regular stumpage as of 2001.

Timber Licences within TFLs are managed on an integrated basis with other Crown land and private timberlands within the TFL. They remain part of the TFL after harvest. Timber Licences outside of TFLs revert to the Crown after harvest and are harvested in accordance with an operating plan and/or forest development plan approved by the Ministry of Forests. The timing of harvesting from these tenures is subject to the Forest Practices Code, but is otherwise at the discretion of the holder. These licences are for terms varying from 5 to 35 years.

Forest Management

Forest Management Strategy

All of the timberlands on which TimberWest conducts harvesting operations, with the exception of Timber Licences outside of TFLs, are managed on a sustainable yield basis, which means that the volume of timber harvested over time will not exceed the volume of incremental growth over the same period. Forest management is based on detailed site assessments which guide such forest management activities as selection of harvesting method, site preparation, species used in regeneration and fertilization, juvenile spacing and commercial thinning, along with genetic research and the development and planting of superior trees.

Forest management operations on TFLs are guided by Management Plans which are submitted every five years for approval by the Chief Forester of British Columbia. See "Forest Policy and Regulations - TFL Management Plans". These plans provide direction for harvest levels, forest protection, forest renewal and for consideration of other forest values. In May 1999, the Company committed to phasing out clearcutting within four years, replacing it with Variable Retention harvesting. This system retains structural attributes of each stand and favours maintenance of biodiversity, stream protection and visual quality.

TimberWest maintains a forest practices audit system which assesses the forest management performance of each forest operation. The audit system requires an assessment of selected operating areas at least every two years and submission of a report to senior management. Remedial action plans are prepared as required and follow-up is monitored. TimberWest has designed an environmental management system, which incorporates the forest practices audits and facility environmental audits. This system was subject to independent audit during

1999 and received ISO 14001 certification late in November 1999. The audits reviewed both forest practices and facility operations. For Crown lands, the Forest Practices Code sets standards of performance for forest practices, establishes planning procedures and sets a range of activity-specific penalties. Government agencies monitor performance on Crown lands and the Forest Practices Board established under the Forest Practices Code audits that performance. For the Private Timberlands, operations will meet the protection objectives established by the Government of British Columbia for the key public environmental values of fish habitat, water quality, critical wildlife habitat, soil conservation and the growing of trees as set out in the Private Land Forest Practices Regulation which came into force in April 2000. TimberWest is committed to applying the Best Management Practices of the PFLA, an association whose members own over 90% of British Columbia's Managed Forests. One component of TimberWest's internal forest practices audits involves the assessment of ongoing compliance with these principles. In addition, TimberWest maintains an on-going training program to keep its forest operations personnel apprised of changes and updates to these standards and regulations

TimberWest is responsible for reforestation on all Crown lands harvested. Successful regeneration through a mix of natural regeneration and tree planting must be achieved within a specified time period and at a prescribed density level. The regeneration commitment ensures that newly established stands of suitable tree species reach a free-growing state unimpeded by competition from other plants. TimberWest accrues for its future silviculture obligation on Crown lands at the time of harvest.

On private lands that are Managed Forests, TimberWest is committed to ensuring forest regeneration to the standard set out in the Private Land Forest Practices Regulation. Site-specific silviculture programs are developed before harvesting to ensure prompt forest regeneration after harvesting. A variety of intensive silviculture techniques, such as genetic improvement and forest fertilization, have been used to increase productivity on the Private Timberlands. These costs are treated as operating expenses.

TimberWest maintains the 40-hectare Mount Newton Seed Orchard for the production of high quality seed for the Private Timberlands and Crown timber tenures, with any surplus being offered for sale. Annual seedling requirements are met through sowing in contract nurseries for the number of seedlings required to meet TimberWest's reforestation commitments.

Forest protection on TimberWest's Crown timber tenures and Private Timberlands is carried out to minimize losses through fire, insect infestation and disease. Fire suppression is provided by ground-based crews and equipment, supported by aerial water bombers under contract with the Ministry of Forests. Two large water bombers owned and operated by the Company provide additional fire protection on the Private Timberlands. Losses due to fire, insect infestation and disease over the last several decades have been minimal.

Harvesting

A wide range of equipment, including road building and maintenance equipment, crew transportation vehicles, timber falling equipment, grapple and long-line yarding systems, harvesters, log loaders and log trucks, is utilized to carry out harvesting operations. While the majority of TimberWest's harvesting activities are conducted using conventional logging systems, helicopters and long-line yarding systems are used to access otherwise inaccessible, high-value timber, or to minimize environmental impact. In addition, innovative harvest systems are being utilized on certain second growth stands on both the Private Timberlands and Crown timber tenures. Approximately half of TimberWest's annual log harvest is carried out by its own logging crews and the balance is conducted by independent contractors. All harvesting on Crown timber tenures must meet the standards of the Forest Practices Code for forest renewal and protection of forest values.

Future harvest areas on Crown timber tenures are identified within Forest Development Plans, which are typically available for public review annually. Silviculture Prescriptions are completed for each proposed harvest block, detailing harvest methods, protection of other resources and proposed reforestation activities and goals. The Silviculture Prescriptions are submitted to the Ministry of Forests for approval. After ensuring that all forest resources will be adequately managed and conserved, the Ministry of Forests issues cutting permits for individual areas. These permits provide the legal authority to harvest the timber subject to the specific conditions attached to each permit.

The following table shows log production by timber tenure for the periods indicated.

Timber Tenure**Log Production**
(mm³)

	<u>2001</u>	<u>2000</u>
Private Timberlands ⁽¹⁾	2,214	2,045
Tree Farm Licences ⁽¹⁾⁽²⁾⁽³⁾	1,265	1,135
Timber Licences ⁽¹⁾⁽²⁾	17	201
Forest Licences ⁽²⁾	125	145
	3,621	3,526

- (1) TFL log production excludes harvests from TLs and Private Timberlands located within the boundaries of the TFLs.
- (2) Log production on Crown tenures excludes production on tenures managed by other parties.
- (3) TimberWest closed its Cowichan Lumbermill effective January 31, 2001. The Company will continue to operate TFL 46.

The following table shows the species distribution of timber harvested from the Private Timberlands for the periods set out below.

Tree Species**Log Production**
(mm³)

	<u>2001</u>	<u>2000</u>
Douglas fir	1,435	1,210
Hemlock/balsam	584	644
Cedar	126	130
Cypress	46	37
Other	23	24
	2,214	2,045

Over the last two years, an average of 62% of the harvest volume on the Private Timberlands has been Douglas fir. On the Private Timberlands, the species distribution of timber harvested in the foreseeable future will vary from year to year, but over the longer term it is expected to remain in the range of 58% Douglas fir, 30% hemlock/balsam and 12% other species.

The species distribution for the combined production on the Private Timberlands and Crown timber tenures during 2001 was 52% Douglas fir, 33% hemlock/balsam, 10% cedar and 5% other species.

Long-Run Sustainable Yield

The long-run sustainable yield of 2.1 million to 2.5 million m³ established for the Private Timberlands is based on certain assumptions regarding TimberWest's reforestation and genetic improvement programs and reflects the current age class distribution of the second growth stands, expected growth rates, expected harvest constraints for environmental protection or community value purposes and the current economic viability of existing stands.

The long-run sustainable yield will be reviewed periodically to incorporate new information, the accelerated growth resulting from tree improvement and forest fertilization, previously unproductive areas becoming merchantable and changes in the economics of management and the marketplace. The overall management objective for the Private Timberlands is to achieve sustainable forest management as defined by the Canadian Council of Forest Ministers in 1992, that is, maintaining and enhancing the long-term health of forest lands while providing ecological, economic, social and cultural opportunities for the benefit of present and future generations, as well as maximizing economic returns from the forest. The Private Timberlands have been certified as being sustainably managed under the American Forest & Paper Association's Sustainable Forestry Initiative (SFI)SM Program.

Annual Harvest Rate

The Annual Harvest Rate for the Private Timberlands is set by the Company each year following an assessment of expected market conditions, opportunities and various constraints. In turn, harvest operations for the year are

planned to deliver the desired volumes of species and log grades best able to meet the projected demand. Changing conditions during the year may result in changes to these harvest plans in order to better meet customer needs or to address new constraints. This operational flexibility is key to capturing market premiums. The Company experiences some seasonal fluctuations in annual earnings for weather related reasons which affect harvesting operations. Earnings in the second half of the year trend lower because of fire season shutdowns and increased costs of harvesting more inaccessible areas and difficult terrain typically found at higher elevations.

Log Marketing and Trading

TimberWest engages in extensive log marketing and trading activities in the Vancouver log market. Logs are marketed and sold primarily to customers located in the Lower Mainland and Vancouver Island areas of coastal British Columbia. At capacity, TimberWest's Elk Falls Lumbermill consumes approximately 0.7 million m³ of logs each year, of which approximately 52% is provided by TimberWest's log harvest. The balance is purchased from external sources in order to provide a mix of logs that is best suited to the products manufactured by the lumbermill. Accordingly, with a combined AAC from Crown timber tenures of 1.2 million m³ per year and a long-run sustainable yield of 2.1 million to 2.5 million m³ per year from the Private Timberlands, approximately 3.3 million m³ of logs are available for sale annually, including a combination of sawlogs and pulplogs. Included in TimberWest's log sales are commitments of approximately 1.2 million m³ per year in aggregate to NSCL and NSCL's chip suppliers and to Doman pursuant to fibre supply agreements with NSCL and Doman. See "Fibre Supply Agreements".

Revenues from log sales were \$378.4 million and \$362.9 million for 2001 and 2000, respectively.

Log Exports

Timber harvested from the Private Timberlands can be exported, subject to compliance with federal export requirements. TimberWest explores every opportunity to take advantage of the higher priced export log market. See "Forest Policy and Regulations - Log Export Regulations".

Approximately 1,195 mm³ and 777 mm³ of logs were sold to export markets during 2001 and 2000, respectively. During 2001, sales realization for logs sold in export markets averaged approximately \$44 per m³ higher than would have been realized for these same logs in domestic markets.

Fibre Supply Agreements

TimberWest has entered into several agreements with NSCL and an agreement with Doman. As detailed below, these arrangements make sawlogs available to NSCL and Doman and also provide NSCL with a supply of wood fibre.

NSCL Agreements. In 1993 TFL Forest entered into several agreements with NSCL relating to sawlog and wood fibre supply. These agreements were amended in 1997 to reflect the sale of operations of TFL Forest in the interior of British Columbia. These are long-term contracts that specify the volumes to be supplied at prevailing market prices. NSCL pays various fees to TimberWest for services provided under the NSCL agreements.

All wood chips produced by TimberWest's existing lumbermill and, subject to prior rights of third parties, lumbermills acquired in the future, and substantially all pulplogs harvested from the Crown tenures or the Private Timberlands originally acquired by TFL Forest or acquired as part of its log acquisition program in the coastal area, are sold to NSCL under a Chip and Pulplog Supply Agreement. This agreement contains minimum volume commitments, subject to force majeure and curtailment rights. TFL Forest is permitted to make up any shortfalls in minimum volumes by wood chips produced at third party facilities from TFL Forest's logs but cannot make up any shortfalls with purchased wood chips. All pulplogs produced by TFL Forest are sold to NSCL at prevailing Vancouver log market prices.

The Chip and Pulplog Supply Agreement has an indefinite term, subject to NSCL's right to terminate the agreement on 24 months notice. The agreement restricts TFL Forest from disposing of a material part of the Private Timberlands owned by TFL Forest unless the transferee assumes the obligations of TFL Forest to NSCL. Any other sale by TFL Forest of its harvesting rights or a portion of the Private Timberlands can only be completed if the purchaser assumes a proportionate share of TFL Forest's obligations to NSCL under the agreement.

TFL Forest sells to NSCL, under a Residual Fibre Supply Agreement, all surplus sawdust, shavings and hog fuel produced at TimberWest's lumbermill that meet specifications at the prevailing coastal market price.

A Timber Harvesting Management Agreement provides for TFL Forest to sell to designated wood chip suppliers of NSCL a maximum volume of sawlogs each year. Sawlogs are sold to these suppliers at prevailing Vancouver log market prices. This agreement can be terminated by NSCL on 12 months notice to TFL Forest.

TFL Forest, pursuant to a Pulplog Agency Agreement, acts as NSCL's exclusive agent for purchases of pulplogs in coastal British Columbia. TFL Forest has agreed not to purchase pulplogs for any other buyer in British Columbia. This agreement will expire on June 1, 2002.

Under a Pulplog Services Agreement, TFL Forest provides pulplog services to NSCL related to transportation, handling and storage. This agreement remains in force while TFL Forest is obligated under the Chip and Pulplog Supply Agreement.

Doman Agreement. PFP Forest and an affiliate of Doman have entered into an agreement under which PFP Forest has agreed to sell to Doman a minimum of 330,000 m³ of sawlogs harvested from the Pacific Timberlands each year. Sawlogs are sold to Doman at prevailing Vancouver log market prices. The term of the agreement is indefinite but may be terminated by Doman on 12 months notice.

Forest Policy and Regulations

Allowable Annual Cut Determination

The AAC for TFLs and timber supply areas is determined by the Chief Forester of British Columbia and reflects timber conditions, regional and local economic and social interests, and environmental considerations. Harvest levels by the tenure holder in any one year may vary up to 50% above or below the designated AAC as long as the average annual cut over the five-year period is within 10% of the specified AAC for the period. Overcuts at the end of the five years result in a reduction in AAC in the next five-year period. Overcuts of more than 10% may also be subject to penalties. Undercuts of more than 10% may result in a reduction of AAC or, in the case of TFLs, an AAC reduction or reduction of area of land subject to the licence. Relief from the AAC reduction may be granted if the undercut has resulted from circumstances beyond the control of the licence holder. The Ministry of Forests may also dispose of the undercut of timber if relief is not granted. An example of this is a process presently underway to dispose of 300,000 m³ of an undercut reported on TFL 46 during the five year period ending in 1997. The disposal of this 300,000 m³ in AAC will be over a period of ten years.

Amendments to the *Forest Act* in 1992 and 1995 required the Chief Forester to determine an AAC for every TFL and timber supply area in the province by the end of 1996, and every five years thereafter. Accordingly, the AACs for TFL 46 and TFL 47 were recalculated and in December 1996 the Chief Forester issued his determination of the new AACs, the result being that the AAC of TFL 46 was reduced from 558,860 m³ to 535,000 m³ and the AAC for TFL 47 was increased from 711,000 m³ to 865,000 m³. As required by the *Forest Act*, the change in ownership of TFL Forest in 1997, when it was acquired by the Company, resulted in a full 5% reduction in the AAC of all Crown lands held under tenure. With the removal of about 60,000 hectares of Private Timberlands from the TFLs, the present AACs of TFL 46 and TFL 47 are now approximately 462,500 m³ and 697,000 m³, respectively. During 2001, in compliance with the requirements of the *Forest Act*, the Chief Forester commenced the process of reviewing the Company's AACs for TFL 46 and TFL 47. A determination of new AACs for the TFLs is expected in early 2002.

The Company holds a number of Timber Licences outside of the TFLs. Harvests from Timber Licences outside of TFLs are unregulated and there are no cut control requirements on these licences. As such, AACs are not determined for these tenures. Over the last ten years, the Company has made annual harvests of approximately 100,000 m³ from its Timber Licences outside of TFLs.

The 1996 decrease in the AAC for TFL 46 by the Chief Forester reflects the inclusion of the Walbran and Hitchie Creek areas of TFL 46 within the Carmanah, Walbran and Hitchie Creek Provincial Parks. TimberWest is seeking compensation from the Province of British Columbia under the *Expropriation Act* (British Columbia) for the decrease in the AAC of TFL 46 caused by the inclusion of portions of TFL 46 within these parklands. The Central Coast Land and Coastal Resource Management Plan is currently underway and additional small removals from TFL 47 for other purposes may occur over the next several years.

The provincial Chief Forester has completed a review of AACs for each timber supply area. As a result of this process, the aggregate AACs for the Forest Licences held by TimberWest were decreased by a total of approximately 15,000 m³ in 1996 and 1997. He also determined a new AAC for the Strathcona Timber Supply Area in 1999. As a result, effective January 2000, the Minister of Forests reduced the AAC of the Forest Licences held by the Company in the Strathcona TSA by approximately 10%, from 71,300 m³ to 63,700 m³.

Stumpage Charges

The British Columbia provincial government periodically establishes the fees to be paid for the right to harvest timber in the Crown forests. Timber harvested from Crown timber tenures is subject to stumpage at the time of harvest. Stumpage rates are established for each site and each species harvested. Charges are levied on timber harvested on TFLs, Forest Licences and Timber Licences based on the amount of timber scaled and the stumpage rates then in effect. Total stumpage charges incurred by TimberWest were \$13.5 million and \$13.4 million for the years ended December 31, 2001 and 2000, respectively.

Reforestation

TimberWest is responsible for the reforestation of all lands that it harvests. Successful regeneration, through a mix of natural regeneration and tree planting, must be achieved within a specified time period prescribed for each harvest block. The Ministry of Forests monitors regeneration of all logged areas on the Crown lands. TimberWest's reforestation programs for the Private Timberlands are subject to audit by the Land Reserve Commission of British Columbia.

TFL Management Plans

Forest management operations on TFLs are guided by Management Plans, which are submitted every five years for approval by the Ministry of Forests. These plans provide direction for harvest levels, forest protection, forest renewal and for consideration of other forest values including water quality, recreation, tourism, fisheries and wildlife. The Ministry of Forests' policy requires integrated management and protection of the full range of forest values. Draft plans are prepared by licencees and referred to relevant provincial government agencies and to the federal Department of Fisheries and Oceans. Advertised viewings of proposed plans are required in communities near licence areas for the purpose of seeking public comment. Aboriginal interests are also considered in the preparation of the final plan that is submitted to the Chief Forester of British Columbia for final review and approval.

TimberWest recently updated its Management Plans for both TFL 46 and TFL 47 and submitted them to the Chief Forester in 2001. The Company expects that these plans will be approved early in fiscal 2002.

Forest Practices Regulations

The Forest Practices Code, which was implemented in June 1995, sets standards of performance for forest practices on Crown lands, establishes planning procedures and sets a range of activity-specific penalties for non-performance. TimberWest is in substantial compliance with the Forest Practices Code.

The British Columbia provincial government implemented the Private Forest Land Regulation on April 1, 2000. This regulation governs forest practices on private timberlands outside of a TFL. The regulation was developed jointly by the provincial government and the PFLA and consists of a set of results-based environmental protection and reforestation standards having five critical components: clean water, protection of fish habitat, soil conservation, protection of critical wildlife habitat and forest renewal. This regulation is administered by the British Columbia Land Reserve Commission, which is the body responsible for the *Forest Land Reserve Act* (British Columbia). This is a results-based regulation which recognizes private property rights and protects owners' freedom to manage. TimberWest began applying these standards to its operations on the Private Timberlands using these standards in 1999.

Log Export Regulations

Provincial log export regulations minimize opportunities for companies to export logs profitably from Crown timber tenures, such as Forest Licences and TFLs, including any private timberlands within a TFL. A provincial export tax equal to the difference between the export selling price and the domestic selling price may be applied to all log exports, creating, in practical economic terms, a constraint on log exports from Crown tenures.

Logs from most private timberlands outside a TFL are not subject to provincial export regulations, but are subject to federal export regulations. All export timber must be advertised for local consumption and may be exported only if it is surplus to domestic requirements as indicated by the absence of fair market value offers (based on current domestic prices) from domestic lumbermills. There is no provincial or federal export tax on profit made from logs exported from private timberlands that are subject to federal export regulations

Assessment Act and Forest Land Reserve Act

The *Forest Land Reserve Act* (British Columbia) established a commission with the mandate to protect the productive capacity of forest reserve land, including Managed Forests, which are private timberlands so classified by the British Columbia Assessment Authority pursuant to the British Columbia *Assessment Act*

(Forest Land) Regulation. This classification provides a preferential property tax rate to these lands. The Private Timberlands and portions of the Real Estate Properties are all classified as Managed Forests. Under the Private Land Forest Practices Regulation, owners of such land must undertake to reforest the land to certain specifications and to protect key public environmental values. The Managed Forests classification may be cancelled if the owner fails to meet the standard. The Land Reserve Commission of British Columbia will undertake independent audits of performance under the Private Land Forest Practices Regulation and will report the results to the public.

On January 16, 2002, British Columbia's Minister of Sustainable Resource Management announced a restructuring of the Land Reserve Commission. The proposed changes include the phasing out of the Forest Land Reserve and replacement by new government initiatives. The Minister has committed to make these changes in co-operation with other government agencies and private landowners. The content of the amended regulation for private forest land is expected to take several months to finalize as it moves through the governmental process.

It is expected that this restructuring will maintain key public environmental values while reducing current administrative processes and related costs. In addition to providing further security in forest management investments, the restructuring should allow landowners greater flexibility in the management of the land portfolio, subject to existing land use requirements.

Environment and Land Use Issues

Environmental standards on TimberWest's Crown timber tenures are established principally under the Forest Practices Code. Principle regulators of the Code include: the British Columbia Ministry of Forests being responsible for administering and monitoring performance; the British Columbia Ministry of Sustainable Resource Management being responsible for planning; and the British Columbia Ministry of Water, Land and Air Protection being responsible for environmental stewardship. The British Columbia Forest Practices Board is required to undertake audits of government and tenure holder performance and to report the findings publicly.

On the Private Timberlands, TimberWest's operations meet the standards for environmental protection set out in the Private Land Forest Practices Regulation and must comply with various other provincial legislation, including the *Water Act*, the *Pesticide Control Act* and the *Wildlife Act*, and the federal *Fisheries Act*. The British Columbia Land Reserve Commission undertakes periodic audits of practices under this regulation.

Portions of the Private Timberlands are adjacent to expanding urban developments on the east coast of Vancouver Island. While those properties now affected by municipal development plans are included in the Real Estate Properties, forest management strategies on other lands are conducted in a manner which is sensitive to the concerns of local interests and neighbouring owners. A forest practice called Variable Retention is employed in certain of these areas and encompasses partial harvest systems and harvest block layout which mitigate the visual impact of harvesting when viewed from adjoining properties. In addition, TimberWest employs a watershed management strategy to guide forest operations on private lands. The policy requires approval of harvest plans by a professional forest hydrologist. Input to the plan is sought from licenced water users.

Aboriginal Land Claims

Canadian courts have recognized that aboriginal peoples may continue to have unenforced rights at law in respect of land used or occupied by their ancestors where treaties have not been concluded to deal with these rights. These rights may vary from limited rights of use for traditional purposes to a right of aboriginal title and will depend upon, among other things, the nature and extent of the prior aboriginal use and occupation. The courts have encouraged the federal and provincial governments and aboriginal peoples to resolve rights claims through the negotiation of treaties.

Aboriginal groups in British Columbia have claimed substantial portions of the province as land which they own or in which they have a traditional interest and for which they are seeking compensation from various levels of government. A process is now in place within British Columbia to deal with aboriginal land claims. These negotiations will be ongoing for a number of years, depending on the commitment of the parties involved and the precedents set by the outcomes of the first settlement agreements.

Settlements will likely involve a combination of cash and land, and may affect TimberWest's Crown timber tenures, in which case, government has indicated tenure holders will be compensated. The British Columbia provincial government and the First Nations Summit have stated that private lands will not be subject to land claims. Several bands have approached TimberWest with a view to purchasing, at market price, certain small portions of the Company's private lands for inclusion in their final Treaty Settlement lands.

Despite the above assurances, the Company cannot predict whether aboriginal land claims in British Columbia will affect its existing timber tenures or its private timberlands or its ability to harvest timber from these sources in the future, or its ability to renew or secure other sources in the future.

Lumber Manufacturing and Sales

Manufacturing

TimberWest manufactures and markets a wide range of lumber products. By-products of the manufacturing process, in the form of chips, sawdust and hog fuel, are an important source of raw materials for pulp and paper mills. The Company currently has one lumbermill, the Elk Falls Lumbermill. The Company’s Cowichan Lumbermill was closed effective January 31, 2001.

Elk Falls Lumbermill

The Elk Falls operations, located at Campbell River, include a medium-log lumbermill, an integrated chipping facility, a planer mill and dry kilns. The lumbermill consumes medium diameter logs either harvested from TimberWest’s logging operations or traded or purchased specifically for this operation. Operating two shifts per day, annual capacity is 115 mmfbm of lumber and 200 mm³ of wood chips.

Most of the lumber produced at the Elk Falls operation is exported to Japan for use in traditional Japanese housing. Traditional housing has historically accounted for over 500,000 housing units annually or 40% of total Japanese housing starts and represents over 80% of total wood-based housing. An increasing amount of the mill’s production is being manufactured and sold as finished product in the Japanese market. Production from the Elk Falls operation has been targeted to specialty lumber grades in the Japanese market where market conditions are more stable and provide improved margins over commodity grades in the North American market. All of the residual by-products produced by Elk Falls are sold to NSCL for use at its Elk Falls pulp and paper mill.

For the year ended December 31, 2001, 52% of Elk Falls’ lumber sales by volume was shipped to Japan, 41% within Canada, and 7% to other locations. Lumber is carried by barge to Stuart Channel Wharves, TimberWest’s lumber trans-shipment operation located near Crofton on Vancouver Island, where it is loaded on to deep-sea vessels. The lumber and wood chip production volumes for the Elk Falls Lumbermill for the periods indicated were as follows:

<u>Product</u>	Year ended December 31	
	<u>2001</u>	<u>2000</u>
Lumber (mmfbm)	103	81
Wood chips (mm ³).....	184	159

Cowichan Lumbermill

The Company’s Cowichan operations were located at Youbou, adjacent to TFL 46, and included a large-log line, two small-log lines and a planer mill. This operation was closed by the Company effective January 31, 2001. During the year, machinery and equipment employed at this operation was dismantled for redeployment at Elk Falls, for sale or for disposal. As the Cowichan Lumbermill was in production for only one month during the year, production from the facility was minimal and included 8.0 mmfbm in lumber and 11.0 mm³ in wood chips. By sales volume, 46% of Cowichan’s remaining lumber inventory was shipped within Canada, 38% to Japan, 8% to Belgium and 8% to other destinations.

Lumber Marketing

TimberWest’s lumber marketing group is responsible for the marketing, market research and product development of all lumber products from TimberWest’s Elk Falls Lumbermill, which are marketed primarily in Japan, Canada, Australia and Belgium. In Japan, lumber production is sold to importers and housing manufacturing companies through the Company’s wholly-owned subsidiary, TimberWest Japan KK. In Canada, lumber production is sold directly to specialty lumber manufacturers whose products are primarily oriented towards industrial end users in North America, Japan and Europe. In Belgium and Australia, lumber products are sold directly to distributors.

The markets in which TimberWest’s lumber products are sold are highly competitive. Customers have many choices of suppliers and determine their purchases based on product quality, service and price. The lumber marketing strategy of TimberWest is to position its products in market segments where long-term customer

relationships can be established and where it can achieve the highest value for its products. As a result, for the year ended December 31, 2001, TimberWest's top ten lumber customers represented approximately 72% of total lumber sales revenue.

Contractual commitments for offshore sales may be made for periods of up to three months, although most production is not contracted for delivery for a period of more than two months ahead of production.

Lumber sales revenue by market for lumber produced for the periods indicated were as follows:

Year ended December 31	<u>Sales</u> (\$ millions)	<u>Market Distribution of Lumber Sales Revenue</u>				
		(% of total)				
		<u>Japan</u>	<u>Canada</u>	<u>Australia</u>	<u>Europe</u>	<u>Other</u>
2001	\$60.5	67%	24%	3%	3%	3%
2000	\$96.0	54%	20%	12%	12%	2%

Softwood Lumber Dispute

The quota allocation received by TimberWest under the Canada-US Softwood Lumber Agreement, which expired on March 31, 2001, was less than 2% of the Company's lumber capacity. This acted as a constraint on the Company's flexibility in responding to market conditions.

On August 10, 2001, the US Department of Commerce ("USDOC") announced its preliminary determination on a countervailing duty and imposed a preliminary duty rate of 19.31% to be posted by cash deposits or bonds on the sales of softwood lumber from Canada to the US on or after August 17, 2001. The preliminary duty rate of 19.31% was suspended on December 15, 2001, 120 days after the preliminary determination, in accordance with US law.

On October 31, 2001, the USDOC issued its preliminary determination on an antidumping duty and imposed a company specific preliminary duty rate on six companies reviewed ranging from 5.94% to 19.24%. All other companies including this Company received the weighted average rate of the six companies reviewed of 12.58%. The antidumping duty rate will apply to all shipments of softwood lumber made to the US on or after November 6, 2001. The final amount and effective date of countervailing and antidumping duties that may be assessed on Canadian softwood lumber exports to the US cannot be determined at this time and will depend on determinations yet to be made by the USDOC and the US International Trade Commission and any reviewing courts, NAFTA or WTO panels to which those determinations may be appealed.

The impact of these US trade measures has affected the Company's domestic log customers and will continue to have an impact on softwood lumber producers in British Columbia, including the ability of the Company to export softwood lumber from the Elk Falls Lumbermill. Lumber sales by TimberWest into the US during 2001 were not significant and the impact of countervailing and antidumping duties to be paid is not expected to be significant. It is uncertain when this softwood lumber dispute will be resolved.

Real Estate Properties and Other Income

TimberWest owns a significant portfolio of higher valued properties that are surplus to its timber harvesting requirements. These Real Estate Properties consist of approximately 6,500 hectares of fee simple lands suitable for real estate purposes such as residential, recreational, commercial and industrial uses. Also included are certain isolated timbered properties and miscellaneous surplus operating properties.

TimberWest will monetize these lands on an ongoing basis dependent on market conditions and the availability and timing of developed, zoned and sub-divided parcels. The removal of the Real Estate Properties from TimberWest's available timber harvesting properties has a negligible impact on its operations and the proceeds from the sale of the properties will enhance TimberWest's cash flow. For the year ending December 31, 2001, net proceeds from the sale of Real Estate Properties was \$11.0 million.

Additional Real Estate Properties will become available as a result of the continuous urban population growth in centres interfacing with our forestland and the completion of the new Inland Island Highway connecting the communities of Nanaimo, Parksville, Courtenay and Campbell River. TimberWest's real estate activities also create marketable parcels and enhanced land values through the orderly rezoning, sub-division and development of its larger parcels.

TimberWest and the Nature Conservancy of Canada have entered into a long-term agreement to identify and sell, covenant, or gift ecologically significant sites to the Nature Conservancy of Canada. In addition, small parcels of

surplus lands may be purchased from TimberWest by neighbouring First Nations Bands as these Bands move closer to treaty settlements with the provincial and federal governments.

TimberWest also earns additional income from the Private Timberlands from a variety of sources other than timber harvesting, including royalty payments from third parties actively operating on 12 rock quarry and gravel pits. These royalties are dependent on major construction projects on Vancouver Island and they are expected to continue in operation for the foreseeable future.

HUMAN RESOURCES

As at December 31, 2001, TimberWest employed 1,025 active salaried and hourly employees at the following locations:

<u>Location</u>	<u>Salaried</u>	<u>Hourly</u> (# of employees)	<u>Total</u>
Elk Falls Lumbermill	12	178	190
Logging operations	123	666	789
Vancouver office.....	46	-	46
Total.....	181	844	1,025

TimberWest employs a unionized workforce. Strikes or lockouts at the Company's or its customers' operations could restrict the Company's ability to carry on its business. At December 31, 2001, the Company had two collective agreements in place that cover all of its unionized employees.

The Industrial, Wood & Allied Workers of Canada Collective Agreement

The Industrial, Wood & Allied Workers of Canada ("IWA Canada") is the certified bargaining agent for TimberWest's hourly employees at Company operations, other than those employed at the Elk Falls Lumbermill. TimberWest is a member of Forest Industrial Relations which negotiates a master agreement with coastal IWA Canada locals on behalf of industry members. A collective agreement signed with IWA Canada in July 2000 specifies annual salary increases of 2% over the contract's three year term. This contract expires on June 14, 2003.

The Communications, Energy and Paperworkers Collective Agreement

The Communications, Energy and Paperworkers ("CEP") is the certified bargaining agent for TimberWest's hourly employees at the Elk Falls Lumbermill. A collective agreement signed with the CEP in May 2001 specifies annual salary increases of 2% for 2001 and 2002. For 2003, 2004 and 2005, the salary increase will be equal to any general increase negotiated by the coast lumber industry of British Columbia. This contract expires on May 1, 2006.

TimberWest has had a good relationship with its unionized employees. Work stoppages in recent history have involved the CEP, including a strike in 1995 lasting seven weeks and a strike in 1997 and 1998 lasting fourteen months. Both stoppages resulted in the curtailment of production at the Elk Falls Lumbermill.

Certain of the Company's unionized employees are part of a co-operative management team and participate in a "gain-sharing" incentive agreement, based on safety, financial, environmental and quality targets.

CAPITAL EXPENDITURES

The completion of the Company's strategic planning process in 2001 resulted in the Company distinguishing between maintenance capital expenditures and development capital expenditures. Maintenance capital expenditures are defined as incremental capital expenditures incurred for a substantial betterment, renewal or improvement of existing assets beyond normal maintenance and repair. Development capital expenditures are defined as capital expenditures incurred for major upgrades to existing assets and/or for acquisition of new assets in the course of the development or expansion of business opportunities.

Only maintenance capital expenditures will be deducted from net earnings in computing distributable cash. The cost of development capital expenditures will not be deducted in computing distributable cash when incurred, however, to reflect the matching of benefits from these expenditures with their cost, repayments on amounts

borrowed to finance development capital expenditures will be deducted in the computation of distributable cash over the term of financing. This will provide a more consistent view of distributable cash and the management discipline to achieve these benefits.

In 2001 and 2000, a total of \$17.6 million was spent on various environmental, maintenance of business and value-adding projects, as well as on logging roads and bridges. The following table summarizes capital expenditures during the periods indicated.

<u>Capital Expenditures</u>	Year ended December 31	
	<u>2001</u>	<u>2000</u>
	(\$ millions)	
Lumbermill operations.....	\$1.1	\$0.2
Logging operations	3.6	3.4
Logging roads and bridges	2.6	6.7
Total.....	\$7.3	\$10.3

Capital expenditure requirements for TimberWest’s logging and lumbermill operations are primarily for the maintenance of business. Ongoing capital spending at or near existing levels is expected to approximate depreciation and amortization.

ENVIRONMENTAL MATTERS

TimberWest is in substantial compliance with applicable environmental laws, including the *Environmental Protection Act* (Canada), the *Waste Management Act* (British Columbia), the *Fisheries Act* (Canada), the Forest Practices Code and permits issued thereunder. At present, there are no significant environmental proceedings involving TimberWest.

During 1999, TimberWest was successful in achieving certification under ISO 14001 for its Environmental Management System. This certification covers all company operations, both forest related and manufacturing and is believed to be a world first for a forestry company. The certification audits were conducted by KPMG Quality Registrar Inc. and are supplemented by regular follow-up audits to assess on-going compliance with the ISO standards and progress in adaptive management. The audits determined that there were no significant environmental issues or risks associated with TimberWest’s on-going operations and that they are in general compliance with both federal and provincial environmental legislation.

During 2000, TimberWest was successful in being awarded Sustainable Forest Management Certification under the American Forest and Paper Association’s Sustainable Forestry Initiative (SFI)SM Program. TimberWest is the first Canadian owned forest company to achieve this certification.

The Environment, Health and Safety Committee of the Board of Directors of the Company meets regularly to review overall performance and to provide broad direction on environmental matters. Both the Company’s Environmental Vision Statement and Environmental Policy were updated in 2000 and received Board approval. With Board support, forest practices underwent a significant change during 1999 with the decision that TimberWest would, over a period of four years, phase out clear-cutting in favor of Variable Retention silviculture. Variable Retention is a relatively new way of managing forests and concentrates on retaining features of the previous forest in order to sustain biodiversity over time. In addition, TimberWest adopted a new watershed management policy to protect drinking water sources on the Private Timberlands. Under this policy, TimberWest works with water licence holders to prepare operational plans which must be approved by a forest hydrologist.

TimberWest's operations on the Private Timberlands achieves the performance standards set out in the Private Land Forest Practices Regulation which came into force on April 1, 2000. This results based regulation places the onus on private landowners to conduct their operations in a manner and through practices which best protect the key public environmental values of water quality, fish habitat, critical wildlife habitat and soil conservation which are found on private lands.

The *British Columbia Contaminated Sites Regulation* and the *Waste Management Amendment Act* (British Columbia), which are focused on reducing the environmental impact of contaminated sites, came into effect on April 1, 1997. This legislation imposes liability for remediation of a contaminated site which is absolute,

retroactive and joint and several. TimberWest does not expect any significant additional liability to arise as a result of this legislation. One divested sawmill site has been identified as coming under this legislation, but the liability attributable to TimberWest's ownership is expected to be minor. A defunct mine site on land owned by TimberWest has also been identified as coming under this legislation. TimberWest, not being the owner or operator of the mine, expects the liability attributable to its land ownership to be minor.

RESEARCH AND DEVELOPMENT

TimberWest has ongoing research and development projects in the areas of forest planning and genetic improvement of trees. TimberWest also contributes to industry-supported research institutes including the Forest Engineering Research Institute of Canada, a forestry and logging research institute. In addition, TimberWest supports forest research programs at the University of British Columbia and a forest protection research chair at Simon Fraser University. For the year ended December 31, 2001, approximately \$0.4 million was spent on research activities.

LEGAL PROCEEDINGS

In 1995, the British Columbia provincial government unilaterally replaced royalty fees charged on timber licences with more onerous stumpage fees. TimberWest has commenced legal action to recover compensation for the resulting loss and damage to its commercial and economic interests and investment in the timber licences. An independent study conducted for the British Columbia provincial government estimated the impact of the change in policy upon TimberWest at \$39 million, and TimberWest's action seeks to recover all losses. Subsequent to the commencement of the Company's legal action, claims filed by two other forest products companies on this same matter have been joined to TimberWest's suit. This claim will proceed to trial in 2002.

Federal log export restrictions currently limit the sale of logs harvested from private lands in British Columbia into international markets. To be eligible for export, these logs must be surplus to the requirements of the domestic market. All logs sold in the domestic market, even those suitable for export, are sold at domestic prices. These restrictions limit TimberWest's ability to sell into international markets and hence limit the Company's access to the additional price premiums available in these markets. Without access to international markets, TimberWest's operations, employment and distributable cash would be negatively impacted. In an effort to remedy these discriminatory restrictions, in July 2001, TimberWest filed a Statement of Claim in the Federal Court of Canada challenging the validity of the private land log export restrictions, seeking a declaration that the provisions are of no force and effect. By filing this Statement of Claim, TimberWest is seeking fair treatment for British Columbia's private forest land owners and the implementation of a uniform, nation-wide treatment for private forest land owners based on sound public policy.

The Company is subject to legal proceedings and claims which arise in the ordinary course of its business. Although there can be no assurance as to the disposition of these matters and the proceedings, it is the opinion of the Company's management, based upon the information available at this time, that the expected outcome of these matters, individually or in aggregate, will not have a material adverse effect on the results of operations and financial condition of the Company.

MANAGEMENT OF TIMBERWEST

Directors and Executive Officers of the Company

Set forth below are the names, municipalities of residence, offices held and principal occupations of the directors and executive officers of the Company.

Directors

Name and Municipality of Residence	Principal Occupation	Director Since
William C. Brown ⁽¹⁾⁽²⁾⁽³⁾ West Vancouver, British Columbia	Corporate Director	June 23, 1997
Thomas A. Buell ⁽¹⁾⁽²⁾ Delta, British Columbia	Corporate Director	December 15, 1997
V. Edward Daughney ⁽³⁾⁽⁴⁾ Vancouver, British Columbia	Chair, Echelon Home Products Ltd. (appliance wholesaler)	June 23, 1997
Paul J. McElligott North Vancouver, British Columbia	President and Chief Executive Officer of the Company.	June 23, 1997
Robert W. Murdoch ⁽¹⁾⁽²⁾ Montreal, Quebec	Corporate Director	September 1, 2001
Anthony J. Petrina ⁽²⁾⁽³⁾ Vancouver, British Columbia	Corporate Director	June 23, 1997
Kenneth A. Shields ⁽¹⁾⁽³⁾ Vancouver, British Columbia	President and Chief Executive Officer, Raymond James Ltd. (investment dealers)	March 3, 1997

(1) Member of the Audit Committee.

(2) Member of the Environment, Health and Safety Committee.

(3) Member of the Governance and Human Resources Committee.

(4) Chairman of the Board of Directors. Mr. Daughney also served as Interim President and Chief Executive Officer of the Company November 22, 2000 to January 21, 2001.

During the past five years, the directors of the Company have been engaged in the same or similar occupations with the organizations indicated above, except that prior to May 1998, Mr. Brown was Chief Executive Officer of B.C. Sugar Refinery Ltd. and its subsidiaries Roger Sugar Ltd., Refined Sugars, Inc. and Lantic Sugar Limited, prior to October 2000, Mr. Daughney was President of Merit Kitchens Ltd., prior to January 2001, Mr. McElligott was President and Chief Executive Officer of BC Rail Group, and prior to September 2001, Mr. Murdoch has served as a Corporate Director of Lafarge S.A., Lafarge North America and Sierra Systems Inc.

Executive Officers

Name and Municipality of Residence	Position	Principal Occupation
Gary D. Cowan West Vancouver, British Columbia	Senior Vice- President, Corporate Development and Real Estate	Officer of the Company; prior to July 1998, Golf Development, Intrawest Corporation; prior to July 1997, Senior Vice-President, Corporate Development, The Loewen Group Inc.
John A. Kelvin North Vancouver, British Columbia	Vice-President, Log Marketing and Sales	Officer of the Company; prior to May 2001, Manager, Log Marketing and Sales of the Company.
John M. Lyotier NanOOSE Bay, British Columbia	Vice-President, Human Resources	Officer of the Company; prior to July 2001, Regional Manager of Human Resources, Weyerhaeuser Ontario Operations; prior to October 1998, Manager, Human Resources of Avenor Inc.
John Mann Nanaimo, British Columbia	Vice-President, Timberland Operations	Officer of the Company; prior to February 2002, General Manager of Coast Forest Operations, International Forest Products Inc.
Paul J. McElligott North Vancouver, British Columbia	President and Chief Executive Officer ⁽¹⁾	Officer of the Company; prior to January 2001, President and Chief Executive Officer, BC Rail Group of Companies (transportation, real estate and deep-sea port terminal operations).
Beverlee F. Park West Vancouver, British Columbia	Vice-President Finance, Chief Financial Officer and Secretary	Officer of the Company; prior to February 2000, Controller and Secretary of the Company.

The directors and executive officers of the Company, as a group, beneficially own, directly or indirectly, or exercise control or direction less than 1% of the issued and outstanding Stapled Units.

DISTRIBUTION POLICY

TimberWest's policy is to make quarterly distributions to its unitholders in the form of interest on the Series A Subordinate Notes, as a return of capital upon the redemption of the preferred shares or as dividends on the common shares or preferred shares. The amount of such distribution is subject to TimberWest's overall financial condition.

Due to the nature of TimberWest's business, quarterly cash flows will fluctuate during the year for seasonal reasons. Cash flows will also fluctuate from year to year due to the cyclical nature of the business. One of the objectives of TimberWest's cash distribution policy is to make even distributions to unitholders. This means that during certain periods, cash distributions may vary from the actual cash generated. Any difference will be added to or subtracted from either cash reserves or the bank operating line of credit.

Quarterly distributions will be payable to the holders of Stapled Units of record on January 1, April 1, July 1 and October 1 in each year (the "Record Dates") and are expected to be paid on the 15th day of the month of each record date.

STOCK EXCHANGE LISTING

The Stapled Units are listed for trading on The Toronto Stock Exchange under the symbol "TWF.UN".

TRANSFER AGENT AND REGISTRAR

Computershare Trust Company of Canada, at its principal offices in Vancouver and Toronto, is the transfer agent and registrar for the Stapled Units.

ADDITIONAL INFORMATION

Reference is made to the sections of TimberWest's 2001 Annual Report entitled "Management's Discussion and Analysis", which are incorporated by reference. Additional information, including directors' and officers' remuneration and indebtedness, principal holders of the Company's Stapled Units, options to purchase Stapled Units, interests of insiders in material transactions and corporate governance, is contained in the Information Circular for the Company's Annual Meeting to be held on May 3, 2002. Additional financial information is provided in the Company's comparative consolidated financial statements for the year ended December 31, 2001, which are contained in the Company's Annual Report.

The Company will provide to any person upon request to the Secretary of the Company, 2300 – 1055 West Georgia Street, PO Box 11101, Vancouver, British Columbia, V6E 3P3:

- (a) at no cost when the securities of the Company are in the course of a distribution pursuant to a prospectus, or a preliminary prospectus has been filed in respect of a distribution of its securities,
 - (i) one copy of the Annual Information Form of the Company, together with one copy of any document, or the pertinent pages of any document, incorporated by reference in the Annual Information Form,
 - (ii) one copy of the comparative consolidated financial statements of the Company for its most recently completed financial year, together with the accompanying report of the auditors, and one copy of any interim financial statements of the Company subsequent to the consolidated financial statements for the Company's most recently completed financial year,
 - (iii) one copy of the Information Circular of the Company in respect of its most recent annual meeting of holders of Stapled Units that involved the appointment of directors, and
 - (iv) one copy of any other documents that are incorporated by reference into the preliminary prospectus or the prospectus and are not required to be provided under (i) to (iii) above; or
- (b) at any time, one copy of any other documents referred to in (a) (i), (ii) and (iii) above, provided the Company may require the payment of a reasonable charge if the request is made by a person who is not a security holder of the Company.

SUMMARY OF FINANCIAL INFORMATION

Operations <i>(in millions of dollars)</i>	2001	2000	1999 ⁽¹⁾	1998 ⁽¹⁾
Sales	\$ 461.9	\$ 487.0	\$ 456.6	\$ 399.8
Operating earnings	87.2	96.2	90.5	65.7
EBITDA ⁽²⁾	100.6	109.1	80.2	77.3
Earnings available for distribution ⁽²⁾ before provision for future income taxes and write-down of capital assets and related costs	58.8	68.0	63.1	38.9
Distributable cash ⁽²⁾	83.5	89.2	83.3	68.3
Cash flow from operations before changes in working capital	74.4	79.9	80.7	50.2

Per Stapled Unit

(in dollars, unless otherwise noted)

Basic and diluted earnings available for distribution before provision for future income taxes and write-down of capital assets and related costs	\$ 0.90	\$ 1.02	\$ 0.91	\$ 0.63
Basic and diluted distributable cash	1.29	1.34	1.20	0.98
Distributions paid	1.08	1.08	1.08	1.08
<i>Weighted average Stapled Units outstanding (000's)</i>				
<i>Basic</i>	64,984	66,590	69,608	69,608
<i>Diluted</i>	65,128	66,685	69,608	69,608
<i>Trading range of Stapled Units on the TSE</i>				
<i>High</i>	13.25	11.30	12.00	11.60
<i>Low</i>	10.70	8.80	8.50	7.30
<i>Close</i>	13.00	10.85	9.50	8.95

Financial Position

(in millions of dollars)

Net working capital (excludes short-term borrowings and distributions payable)	\$ 50.4	\$ 37.1	\$ 48.0	\$ 20.5
Total assets	1,487.2	1,505.3	1,529.5	1,556.6
Long-term debt	175.0	125.0	326.8	263.5
Total debt	378.6	375.1	342.0	326.4
Unitholders' equity	788.5	787.7	673.9	718.8
Total capitalization ⁽³⁾	1,167.1	1,162.8	1,015.9	1,045.2
Debt to total capitalization	32.4%	32.3%	33.7%	31.2%
Market capitalization <i>(at December 31)</i>	844.5	615.8	623.0	720.4

(1) Information presented for 1999 and 1998 have been restated to reflect the retroactive effect of a mandatory change in methods of accounting for income taxes and employee future benefits for fiscal years beginning on or after January 1, 2000.

(2) EBITDA, earnings available for distribution and distributable cash are measures that do not have a standardized meaning prescribed by Canadian generally accepted accounting principles ("GAAP") and may not be comparable to similar measures presented by other companies. A reconciliation between net earnings, as determined in accordance with GAAP, and these measures is included within the Management's Discussion and Analysis contained in the Company's 2001 Annual Report.

(3) Total capitalization is equal to gross debt plus unitholders' equity.