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## **TIMBERWEST EXCEEDS DISTRIBUTABLE CASH EXPECTATIONS AND ANNOUNCES QUARTERLY DISTRIBUTION**

### ***\$9.8 million restructuring charge taken to cover cost of downsizing program***

Vancouver (BC) – TimberWest generated distributable cash of \$20.4 million, or \$0.27 per weighted average Stapled Unit for the second quarter of 2002, before the restructuring charge of \$9.8 million described below, or \$0.13 per weighted average Stapled Unit. This brings year to date distributable cash generated to \$41.6 million, or \$0.57 per weighted average Stapled Unit before the restructuring charge. This is down from the second quarter of 2001 and first half of 2001, when markets were stronger, stumpage payments to the Province were lower, and real estate sales were higher. The Company also announced its quarterly distribution of \$0.269 per Stapled Unit, payable on October 15, 2002 to unitholders of record on October 1, 2002.

“As we had expected, the second quarter was a challenging one for the Company. I am pleased that despite very weak markets, TimberWest has again exceeded the capital market’s distributable cash expectations,” said Paul McElligott, President and CEO.

2002 second quarter financial results are lower than those achieved in the second quarter of 2001 largely due to the fact that log prices were at recent lows for many log sorts. Average sales realizations were \$100 per m<sup>3</sup> in the most recent quarter, compared to \$114 per m<sup>3</sup> during the second quarter of 2001. Not only were markets weaker during the quarter, but the Company’s overall log sales mix was weaker, with a higher than average component of pulp logs.

In addition, the timing of the Company’s real estate sales has been different this year from past years. “While in 2001 we booked \$4.5 million in proceeds from real estate sales in the second quarter, in the same period this year our real estate proceeds totalled only \$1.6 million, and year to date we’ve achieved only \$2.3 million, compared to sales of \$8.1 million completed in the first six months of 2001. However, these are timing differences only, as during the first two weeks of the third quarter the Company has closed two real estate transactions for proceeds of approximately \$14 million,” McElligott said.

“In terms of achieving permanent cost reductions on the operations side, we have made good progress, with logging cost of sales down \$4.00 per m<sup>3</sup> year over year. However, stumpage payments to the Provincial Government were up \$2.9 million in the first half of 2002, increasing unit cost of production by \$1.95 per m<sup>3</sup> over the combined private/public land harvest. This increase in stumpage was partially offset by reduced road building activity and changes in harvesting systems mix. When all of these factors are taken into account, we are close to achieving \$3.00 per m<sup>3</sup> towards our permanent cost reduction program,” McElligott said.

“I’m also pleased with the continued focus on safety, which is reflected in the fact that, year to date, the Company has achieved an MIR of 4.7, ahead of our 2002 safety target of 6 and better than last year’s actual,” added McElligott.

As announced at the beginning of the year, TimberWest has a new strategic plan in place to enhance the performance of all of its businesses, which includes reducing costs and improving productivity. “It is our vision to be a market-driven company, growing the greatest value with the existing basket of assets through operations excellence. As part of the company-wide cost reduction program, there has been a

## TIMBERWEST FOREST CORP.

thorough examination of all positions within TimberWest to determine how best to streamline staff and increase efficiencies. As a result, approximately 50 positions have been permanently eliminated, including about 20 percent of the Company's salaried staff, resulting in cost savings of approximately \$6 million per year," said McElligott.

"This reduction in our workforce is part of the re-design of TimberWest that is necessary to ensure we continue to be a profitable, performance-oriented company that provides a good return on investment. We have a severance policy in place that is designed to help those affected find new opportunities outside of TimberWest. I thank these employees for their contributions to the Company," McElligott said.

TimberWest is taking a one-time restructuring charge to earnings of \$9.8 million in the second quarter to cover the cost of severance, early retirement programs and closure of facilities.

The Company has reviewed its senior management team and a number of changes have been made at this level as well. Hamish Kerr is the Company's new Vice President of Strategic Planning and Forest Policy. Hamish spent 20 years as a Vice President, Director and Forest Products Analyst with a major investment firm. One of Hamish's primary roles will be to coordinate TimberWest's strategic planning process and he will be involved in all aspects of business strategy. On the forest policy side, Hamish will be responsible for the long-term forest stewardship functions on the Company's private lands, including determining how best to grow more trees faster on less land.

By combining two former roles – Vice President/Chief Forester and Director of Strategic Planning – into one position, the Company has reduced corporate staff costs. We also have eliminated the position of Senior Vice President, Corporate Development and Real Estate. We thank Gary Cowan for his contributions and wish him well in his new endeavours. Gary's responsibilities have been re-distributed to others on the Senior Management Team.

There have also been a number of management changes at our Elk Falls Lumbermill to better position the mill for future success. Ed Vervynck has been appointed General Manager, Manufacturing of TimberWest, with overall responsibility for the Elk Falls Lumbermill. John Burch is the Company's new Director of Marketing and Transportation for the lumber manufacturing division, and Terry Hamilton is the new Mill Manager at Elk Falls. While new to TimberWest, these individuals are not new to the coastal forest products industry. All three are former senior managers of Primex Forest Products Ltd., a company that was widely regarded as a success story in coastal BC. They have worked together as a team in the past and have extensive experience and a successful track record in the coastal lumber manufacturing business.

### Quarterly Financial Highlights

A one-time, pre-tax charge of \$9.8 million was recorded in the second quarter relating to severance and facilities closure costs. The \$9.8 million charge for restructuring results in a direct reduction to distributable cash<sup>1</sup>, earnings available for distribution<sup>1</sup> before provision for future income tax expense, and EBITDA<sup>1</sup>, which reduced all of these measures by \$0.13 per weighted average Stapled Unit for the second quarter of 2002.

After giving effect to the restructuring charge, TimberWest generated distributable cash of \$10.6 million, or basic and diluted distributable cash of \$0.14 per weighted average Stapled Unit for the quarter ended June 30, 2002, compared to distributable cash of \$26.7 million, or basic and diluted distributable cash of \$0.41 per weighted average Stapled Unit for the same period in 2001. Earnings available for distribution for the quarter, before provision for future income tax expense, were \$5.3 million or \$0.07 per weighted average Stapled Unit compared to \$20.1 million, or \$0.31 per weighted average Stapled Unit for the same quarter in 2001. Net sales for the second quarter were \$120.7 million, compared to net sales of \$130.2 million reported for the second quarter of 2001. Operating earnings were \$19.3 million for the second quarter of 2002 compared to \$26.3 million for the same quarter in 2001. EBITDA for the quarter

<sup>1</sup> Distributable cash, earnings available for distribution and earnings before interest, taxes, depreciation and amortization ("EBITDA") 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 distributable cash and earnings available for distribution is provided in the Consolidated Statements of Distributable Cash included in the Company's 2002 Second Quarter Interim Report. A reconciliation between net earnings as determined in accordance with GAAP and EBITDA is provided in the supplemental information included below.

# TIMBERWEST FOREST CORP.

ended June 30, 2002 was \$12.7 million, or \$0.17 per weighted average Stapled Unit compared to \$30.4 million, or \$0.47 per weighted average Stapled Unit for the same period in 2001.

## Year to Date Financial Highlights

As noted above, a one-time, pre-tax restructuring charge of \$9.8 million was recorded during the second quarter of 2002, resulting in a direct reduction to distributable cash, earnings available for distribution before provision for future income tax expense, and EBITDA, which reduced all of these measures by \$0.13 per weighted average Stapled Unit on a year to date basis.

For the six months ended June 30, 2002, after giving effect to the restructuring charge, TimberWest generated distributable cash of \$31.8 million, or basic and diluted distributable cash of \$0.43 per weighted average Stapled Unit, compared to distributable cash of \$52.6 million, or basic and diluted distributable cash of \$0.81 per weighted average Stapled Unit for the same period in 2001. Earnings available for distribution for the six months, before provision for future income tax expense, were \$20.2 million or \$0.28 per weighted average Stapled Unit compared to \$41.3 million, or \$0.64 per weighted average Stapled Unit for the same period in 2001. Net sales for first six months of 2002 were \$209.6 million, compared to net sales of \$240.9 million reported for the same period of 2001. Operating earnings were \$40.3 million for the six months ended June 30, 2002 compared to \$54.3 million for the comparative period in 2001. EBITDA for the six months ended June 30, 2002 was \$36.4 million, or \$0.50 per weighted average Stapled Unit compared to \$62.0 million, or \$0.95 per weighted average Stapled Unit for the same period in 2001.

In February 2002, the Company completed an equity 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 \$136.1 million were used to reduce the Company's indebtedness under its non-revolving credit facility.

## Summary of Results

In millions of dollars, except as otherwise indicated

*Unaudited*

	Three Months Ended		Six Months Ended	
	June 30, 2002	June 30, 2001	June 30, 2002	June 30, 2001
Net sales	\$ 120.7	\$ 130.2	\$ 209.6	\$ 240.9
Operating earnings	\$ 19.3	\$ 26.3	\$ 40.3	\$ 54.3
Earnings available for distribution before provision for future income tax expense	\$ 5.3	\$ 20.1	\$ 20.2	\$ 41.3
Distributable cash, before restructuring charge	\$ 20.4	\$ 26.7	\$ 41.6	\$ 52.6
Restructuring charge	\$ (9.8)	\$ -	\$ (9.8)	\$ -
Distributable cash, after restructuring charge	\$ 10.6	\$ 26.7	\$ 31.8	\$ 52.6
Proceeds from sale of capital assets	\$ 1.9	\$ 4.8	\$ 2.7	\$ 8.4
Maintenance capital expenditures	\$ 1.4	\$ 1.8	\$ 1.7	\$ 2.2
Distributions paid	\$ 20.4	\$ 17.4	\$ 37.8	\$ 34.9
\$ per weighted average Stapled Unit: (unless otherwise noted)				
Basic earnings available for distribution before provision for future income taxes	\$0.07	\$0.31	\$0.28	\$0.64
Diluted earnings available for distribution before provision for future income taxes	\$0.07	\$0.31	\$0.28	\$0.63

# TIMBERWEST FOREST CORP.

Basic and diluted distributable cash, before restructuring charge	<b>\$0.27</b>	\$0.41	<b>\$0.57</b>	\$0.81
Restructuring charge	<b>(\$0.13)</b>	\$ -	<b>(\$0.13)</b>	\$ -
Basic and diluted distributable cash, after restructuring charge	<b>\$0.14</b>	\$0.41	<b>\$0.43</b>	\$0.81
Distributions paid	<b>\$0.27</b>	\$0.27	<b>\$0.54</b>	\$0.54

## Outlook

For the balance of 2002, TimberWest anticipates pricing to be stable with some strengthening in a number of our end log products. Supply in the US lumber market is expected to tighten as a result of the duties on Canadian lumber and it is anticipated that the price of both logs and lumber will improve in the second half of the year. The log market in Japan is expected to be stable with the possibility of some improvement. Our domestic log market continues to suffer from supply shortages resulting in a stable price forecast for most sorts. Market pulp appears to be starting another cycle with successful price increases. TimberWest expects some modest price increases for chips and pulps as a result.

The Company continues to work hard on its operations excellence initiative and is working towards achieving its cost reduction targets. Capital expenditures are expected to be higher than usual in the back half of the year because of a planned investment in an additional new dryland sort facility. The cash impact of this investment is expected to be more than offset by higher than normal real estate sales – to date, in the third quarter, TimberWest has closed approximately \$14 million in real estate sales, the most significant of these being the sale of our Earle Creek property.

The Company will continue to work with government on public policy change and is hopeful that positive changes will occur on Crown tenure in the second half of 2002. However, the impact of any regulatory change is unlikely to be realized until 2003. In particular, TimberWest expects stumpage rates to continue to be higher than in 2001 through the back half of the year.

All in all, the Company anticipates that, before considering the provision for restructuring, it will deliver financial results similar to those of 2001 for unitholders.

## Supplemental Information

In millions of dollars, except as otherwise indicated

*Unaudited*

	Three Months Ended		Six Months Ended	
	June 30, 2002	June 30, 2001	June 30, 2002	June 30, 2001
<b>Operations</b>				
Net sales	<b>\$ 120.7</b>	\$ 130.2	<b>\$ 209.6</b>	\$ 240.9
Operating costs and expenses:				
Cost of products sold	<b>94.4</b>	95.7	<b>155.7</b>	170.9
Depreciation, depletion and amortization	<b>3.1</b>	3.5	<b>5.7</b>	7.0
Selling, administrative and other	<b>3.9</b>	4.7	<b>7.9</b>	8.7
	<b>101.4</b>	103.9	<b>169.3</b>	186.6
Operating earnings	<b>19.3</b>	26.3	<b>40.3</b>	54.3
Interest expense	<b>3.5</b>	5.9	<b>7.5</b>	12.1
Amortization of deferred financing costs	<b>0.5</b>	0.4	<b>2.5</b>	0.7
Other income, net	<b>(0.1)</b>	(0.6)	<b>(0.2)</b>	(0.7)
Restructuring charge	<b>9.8</b>	-	<b>9.8</b>	-
Earnings before income taxes	<b>\$ 5.6</b>	\$ 20.6	<b>\$ 20.7</b>	\$ 42.2
Earnings before interest, taxes, depreciation and amortization (EBITDA)				
Earnings before income taxes	<b>\$ 5.6</b>	\$ 20.6	<b>\$ 20.7</b>	\$ 42.2

# TIMBERWEST FOREST CORP.

Add: Interest expense	3.5	5.9	7.5	12.1
Depreciation, depletion and amortization	3.1	3.5	5.7	7.0
Amortization of deferred financing costs	0.5	0.4	2.5	0.7
EBITDA	\$ 12.7	\$ 30.4	\$ 36.4	\$ 62.0
Earnings available for distribution before provision for future income tax expense	\$ 5.3	\$ 20.1	\$ 20.2	\$ 41.3
Distributable cash	\$ 10.6	\$ 26.7	\$ 31.8	\$ 52.6
Cash generated from operations before changes in non-cash working capital	\$ 8.5	\$ 23.4	\$ 29.7	\$ 47.5
Sales by Product				
Logs	\$ 102.9	\$ 109.1	\$ 175.9	\$ 190.2
Lumber	13.0	13.4	25.7	35.5
Wood chips and other	3.1	3.2	5.6	7.0
Real estate	1.7	4.5	2.4	8.2
	\$ 120.7	\$ 130.2	\$ 209.6	\$ 240.9
Sales Volume				
Logs (thousand m <sup>3</sup> )	1,025.5	960.9	1,675.3	1,628.1
Lumber (million fbm)	28.7	30.8	55.5	77.4
Production Volume				
Logs (thousand m <sup>3</sup> )	1,023.9	1,007.3	1,731.4	1,880.6
Lumber (million fbm)	30.9	34.0	56.9	70.0
<b>Financial Position</b>	<b>As at 06-30-02</b>	<b>As at 12-31-01</b>	<b>As at 06-30-01</b>	<b>As at 12-31-00</b>
Net working capital (excluding short-term borrowings and distribution payable)	\$ 33.6	\$ 50.4	\$ 59.7	\$ 37.1
Total assets	\$ 1,472.9	\$ 1,487.2	\$ 1,517.7	\$ 1,505.3
Total debt	\$ 231.1	\$ 378.6	\$ 379.6	\$ 375.1
Unitholders' equity	\$ 906.3	\$ 788.5	\$ 792.9	\$ 787.7
Total capitalization	\$ 1,137.4	\$ 1,167.1	\$ 1,172.5	\$ 1,162.8
Debt to total capitalization	20%	32%	32%	32%
Stapled Units outstanding (thousands)	76,072	64,691	64,975	64,825
Basic weighted average Stapled Units (thousands)	73,195	64,984	64,944	66,590
Diluted weighted average Stapled Units (thousands)	73,358	65,128	65,117	66,685

## Quarterly Conference Call

TimberWest will hold a conference call at 8:00am PST (11:00am EST) on Wednesday, July 17, 2002, to discuss results of the second quarter. To access the conference call, listeners should dial 1-888-294-1704. For those unable to participate in the live call, a recording of the call will be available until July 31, 2002, and can be accessed at 1-800-558-5253 using code 20697162. For those unable to participate in the live call, TimberWest will also broadcast the conference live on the internet via its website home page at [www.timberwest.com](http://www.timberwest.com). The webcast will be archived on the Company's website and will be available for an additional 90 days.

## Corporate Profile

TimberWest Forest Corp. is uniquely positioned as the largest owner of private forest lands in western Canada. The Company's 334,000 hectares, providing a sustainable annual harvest of 2.1 million to 2.5 million m<sup>3</sup> of logs, are largely located on Vancouver Island and contain some of the best coniferous forest growing sites in the world. The American Forest & Paper Association has certified that the Company is committed to managing these private lands according to sustainable forestry standards under its Sustainable Forestry Initiative (SFI)<sup>SM</sup> Program. TimberWest also owns annual Crown harvest rights for

# TIMBERWEST FOREST CORP.

1.2 million m<sup>3</sup> of logs, a lumbermill, and about 6,500 hectares of properties that are progressively being made available for higher uses.

## **Forward Looking Statements**

The statements which are not historical facts contained in this release are forward-looking statements that involve risks and uncertainties. TimberWest's actual results could differ materially from those expressed or implied by such forward-looking statements. Factors that could cause or contribute to such differences include, but are not limited to, general economic conditions, variations in TimberWest's product prices and changes in commodity prices generally, changes in market conditions, actions of competitors, interest rate and foreign currency fluctuations, regulatory and harvesting fee changes and other actions by governmental authorities, the ability to implement business strategies and pursue business opportunities, weather conditions, forest fires and other natural phenomena and other risks and uncertainties described in TimberWest's public filings with securities regulatory authorities.

## **Additional Information**

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