



**TIMBERWEST FOREST CORP.**

**ANNUAL INFORMATION FORM**

(for the period January 1, 2005 to December 31, 2005)

March 16, 2006

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## CORPORATE STRUCTURE

### Incorporation

TimberWest Forest Corp. (“TimberWest” or “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 Ltd. and Pacific Forest Products Limited and the Company, together with its subsidiaries and their respective interests in partnerships, is collectively referred to herein as “TimberWest”.

TimberWest’s principal office is located at 2300 – 1055 West Georgia Street, Vancouver, British Columbia, V6E 3P3, Canada, telephone: 604-654-4600. The Company’s registered office is located at P.O. Box 10424, Pacific Centre, 1300 – 777 Dunsmuir Street, Vancouver, British Columbia, V7Y 1K2. The Company’s website is found at <http://www.timberwest.com>.

All references herein to “dollars” and “\$” are to Canadian dollars and all financial information reflected herein is determined on the basis of Canadian generally accepted accounting principles, unless otherwise indicated.

### Companies Comprising TimberWest

The Company was incorporated under the *Company Act* (British Columbia) (which has been replaced by the *British Columbia Business Corporations Act*) on January 31, 1997, under the name 535950 British Columbia Ltd.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.

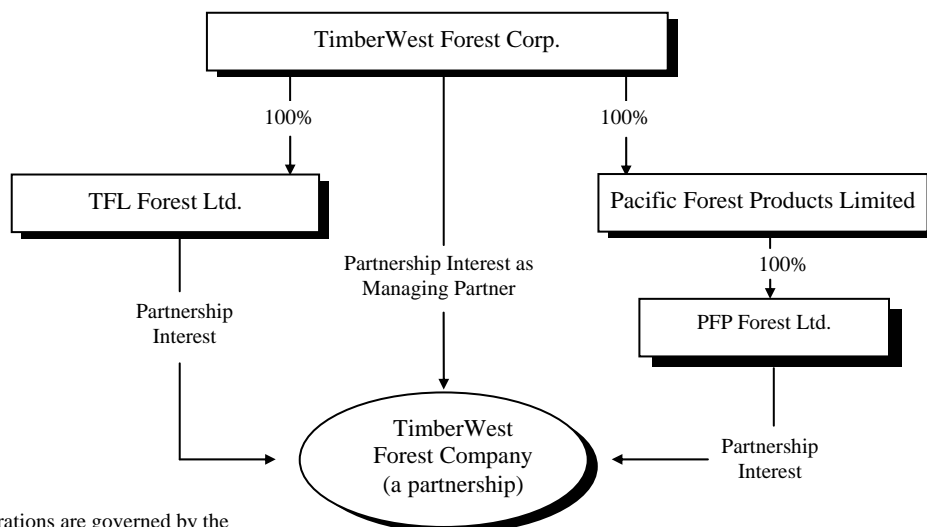
A predecessor of TFL Forest was incorporated under the *Company Act* on January 8, 1987, under the name Pinette & Therrien Mills (1987) Ltd. and changed its name to TimberWest Forest Limited on October 14, 1993, and was amalgamated pursuant to an arrangement under the *Company Act* on June 23, 1997. 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 a predecessor of Catalyst Paper Corporation (“Catalyst”) 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 *British Columbia Business Corporations Act*.

## **BUSINESS OF TIMBERWEST**

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### **Business Overview**

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TimberWest is one of Canada's largest businesses operating exclusively in the solid wood segment of the forest industry. The Company operates entirely in the coastal region of British Columbia, where it is engaged primarily in the harvesting and sale of logs and the sale of real estate. The business of TimberWest has been owned and managed for over 80 years by the Company, or by Catalyst, Crown Forest Industries Limited and their predecessors. Pacific and its predecessors have owned and managed its Private Timberlands for over 40 years.

With its timberland asset base, TimberWest is well positioned as the largest owner of private forest lands in Western Canada. The Company owns in fee simple approximately 334,000 hectares of Private Timberland. These timberlands are largely located on Vancouver Island and the majority of the land base supports the growth of Douglas fir, a premium tree species sought after for structural purposes. While ensuring that rigorous environmental and conservation practices for wildlife, water quality protection, biodiversity conservation and a wide range of other conservation goals are applied, the Company has established that these lands can sustain a long-term harvest of 2.5 million m<sup>3</sup> of logs per year. The Company's independent auditor, KPMG Performance Registrar Inc., has certified that the Company's long term harvest level determination of 2.5 million m<sup>3</sup> on the Company's private timberlands can be maintained for the next 50 years, after which it declines to 2.36 million m<sup>3</sup>, and that the Company's analysis meets all Sustainable Forestry Initiative (SFI<sup>®</sup>) requirements.

TimberWest also holds four renewable long-term Crown timber tenures, including one Tree Farm Licence and three Forest Licences, which provide the Company with the right to harvest 0.7 million m<sup>3</sup> of logs per year from Crown lands. The management practices applied to these lands meet the stringent requirements of the *Forest Practices Code of British Columbia Act* and the *Forest and Range Practices Act*.

The Company is also engaged in the processing and sale of softwood lumber produced by its Elk Falls Lumbermill located at Campbell River on Vancouver Island. This mill processes logs primarily sourced from public tenures. The Company initiated a sales process for the lumbermill in late 2005. This process has continued into 2006.

In addition, approximately 6,200 hectares of TimberWest's private forest lands have been identified as having greater value as Real Estate Properties and are progressively being made available for sale.

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) extracting maximum value from its Real Estate Properties through development activities and 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 certification 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 Initiative (SFI<sup>®</sup>) Program.

### **Forest Industry Operations**

TimberWest operates exclusively in the solid wood segment of the forest industry, engaged primarily in the harvesting and sale of logs. The Company sells most of its log production on the open market, which provides considerable flexibility to meet market opportunities. In fiscal 2005, the sale of logs accounted for approximately 72% of the Company's revenue.

In the export market, TimberWest is well positioned to supply fibre to a diverse base of customers who participate in the two largest wood-based housing markets in the world, the United States (US) and Japan. TimberWest's position in the supply chain as a net seller of logs provides the Company considerable flexibility in the harvesting and sale of its timber resources.

The forest industry on the BC coast is in a state of contraction and has undergone significant change in regulatory and labour environments. The industry is in the process of getting smaller although some investment is beginning to be made to upgrade existing sawmills. In 2005, approximately 55% of TimberWest's log sales were to log processing facilities on the BC coast. Therefore a strong, competitive sawmilling industry in this region will favourably affect the market for both private and public land logs.

### ***TimberWest's Vision and Strategy***

TimberWest is a market-driven company with a vision of "Growing greatest value through Operations Excellence."

The Company's vision was developed as a result of extensive analyses undertaken in 2001, which included an examination of the competitive dynamics of the forest industry in which TimberWest operates, an assessment of the Company's strengths, weaknesses, opportunities and threats in this industry context, and a determination of the Company's core competencies.

This analysis led to the development of a five-year strategic plan, updated annually, under which TimberWest presently operates. A key conclusion drawn from these analyses was that TimberWest's first priority is to enhance the performance of its existing business units under a strategy focused on "Operations Excellence." Key tenets of Operations Excellence include operating in a safe and sustainable fashion, a strong emphasis on environmental stewardship and improvements in financial performance through market diversification, cost reductions and strategic silviculture investments.

While all of the Company's operations are integral to the success of each other, strategic objectives have been identified for each area and are described below.

#### ***Private Timberlands***

Private timberlands refer to the portion of timberland assets that TimberWest owns in fee simple. Private timberland ownership has been an advantage as the harvesting flexibility has enabled the Company to quickly respond to changing market conditions. Wood harvested from private land is in most cases exportable, albeit with some restrictions, and this has resulted in much higher average sales realizations than those achieved in the domestic market. In addition, these lands have lower operating and regulatory costs than public lands and have a more valuable species mix that is predominantly Douglas fir. As a result, these lands have generally allowed the Company to generate consistent returns in difficult markets in past years. These returns have been relatively steady, predictable and controllable for TimberWest compared to returns from public lands and log processing.

TimberWest's primary business strategy has been the pursuit of Operations Excellence with its existing basket of assets. As the Company is successful in achieving sustainable reductions in unit costs, it will explore other ways to complement the asset base to increase value. As a low cost producer, the Company is now in a position to consider accretive acquisitions.

In June 2004, TimberWest announced a plan to transform its private timberland business model through a restructuring of the Company's log harvesting operations and a move to contract all logging activities. Historically, 50% of the Company's log harvesting was performed by contractors. Under this transformation plan, the Company has contracted the remainder of its logging activities to unionized contractors on a competitive-bid basis, effective January 1, 2005.

The transformation of the Company's logging activities to a contractor model is considered a natural progression of the Company's Operations Excellence strategy as it is expected to provide increased flexibility, a reduced cost base and an operating structure more closely aligned with industry norms in the rest of North America. This change is expected to improve the Company's competitiveness over the long term. Going forward, the Company's focus will be on core land and timberland management functions including timber inventory, strategic silviculture investments, harvest planning, and the marketing and sales of timber products and real estate.

#### ***Public Lands***

TimberWest's Crown tenures represent approximately 23% of the Company's available harvest. The profitability of these operations has varied widely since the inception of the Company. The major issue is not only the variability in historic performance but also the uncertainty surrounding future performance in light of both market and regulatory change. Government policy changes, along with ongoing restructuring in the coastal industry, brings uncertainty but also the opportunity that comes with change.

TimberWest is committed to its strategy of Operations Excellence on its remaining public lands. The Company's short- to mid-term focus is on reducing operating costs within public land operations and working with other industry stakeholders to reduce other costs of these operations.

### *Lumbermill Operations*

TimberWest has a single lumber manufacturing facility, the Elk Falls Lumbermill located at Campbell River, BC. The Elk Falls facility includes a lumbermill, an integrated chipping facility, a planer mill and drying kilns. The lumbermill processes medium-diameter logs either harvested from TimberWest's logging operations or traded or purchased specifically for this operation. Operating at three shifts per day, the lumbermill produced 168 million board feet of lumber and 0.3 million m<sup>3</sup> of wood chips in fiscal 2005.

Integral to maximizing the value of the Company's timberland assets is access to a customer base that can pay global prices for fibre. The strategic objective for the Elk Falls Lumbermill is to continue to improve its competitiveness by enhancing and diversifying its product mix to a variety of markets and improving its productivity and cost competitiveness. Being the lowest-cost producer possible will allow the mill to compete with the highest bidders for fibre and thereby help maximize the value of the Company's timberland base. The mill has made progress on increasing productivity and lowering unit costs, but as yet is not globally competitive.

While this sawmill has performed satisfactorily in the context of the coastal BC industry, as part of a strategic review of TimberWest's assets undertaken in 2005, it was determined that the Company would be in a superior competitive position without the Elk Falls Lumbermill. As a result, early in the fourth quarter of 2005, the Company commenced a sales process for the Elk Falls Lumbermill. This process has continued into 2006.

### *Higher-use Properties and Other Revenue Streams*

TimberWest has a portfolio of higher-use properties that comprise approximately 6,200 hectares at this time. These properties are identified as TimberWest determines them to have a higher value to other owners. This portfolio has grown since inception, in hectares and in value, but this may not always be the case. Real estate conditions as well as timberland conditions change over time, which can cause the value and size of the higher-use property portfolio to change.

A strategic review of TimberWest's entire land holdings is underway and will be completed in 2006. The objective of this review is to ensure that values are being optimized and that lands are being put to their highest and best economic use, be that commercial forestry or real estate development. Going forward, real estate is expected to play a greater role in delivering value to TimberWest's unitholders than it has in the past.

TimberWest's land holdings also have potential value to be realized from other uses, such as coal bed methane gas and mineral rights.

TimberWest is committed to exploring opportunities to create additional value from its existing land base, including participation in real estate activity and the development of other revenue streams where value may be added.

### ***Key Performance Drivers***

Each year the Company establishes quantifiable performance targets for each of its Operations Excellence principles and communicates progress toward these targets to employees and unitholders on a quarterly basis.

The Company's focus is on improving financial performance. As TimberWest operates in an international commodity market, the Company has separated this objective into two areas of concentration: market diversification and cost reduction.

Under market diversification, the Company's goal is to diversify its markets to maximize the return on every log produced and strives to achieve this goal by finding the right customer for each log and thereby obtaining the highest value for the Company's timber resources.

In the area of cost reduction, the Company continues to benchmark contractor performance to ensure the Company can achieve the highest efficiency possible in order to place operations in the top quartile of industry performance, and to ensure that the Company remains competitive on a global basis.

TimberWest is committed to ensuring that financial returns do not come at the expense of safety and environmental performance. The Company has established performance measures for these variables that are continually monitored to ensure initiatives aimed at improving the Company's return-to-log are carried out by employees and contractors in a safe and sustainable manner.

## ***Capability to Deliver Results***

### ***Financial Capability***

TimberWest is conservatively financed and has a low cost of capital. The Company has a debt-to-total capitalization ratio of 20% and has considerable financial flexibility in distributing cash to its unitholder base and for investing in the Operations Excellence strategy where required. Within the past year, the Company accessed the Canadian bank market for refinancing on favourable terms.

### ***Management and Executive Capability***

TimberWest has a highly skilled workforce – from its management team and its Board of Directors through to employees and contract crews. During the past year, the Company's management team worked well together and is solidly aligned with TimberWest's strategic direction. TimberWest has invested in people, equipment, roads and inventory at appropriate levels to ensure that production can respond to changing market conditions.

The Company also has effective internal control and management information systems that ensure optimal decisions are being made and that relevant and timely information is being disclosed to the capital markets. In compliance with current securities legislation in Canada, the Company's President and Chief Executive Officer and the Vice-President, Finance, and Chief Financial Officer have certified that the Company's disclosure controls and procedures were effective as at December 31, 2005.

## ***Recent Developments***

### ***Business Transformation***

In 2004, TimberWest announced a plan to transform its business model through a restructuring of the Company's log harvesting operation and a move to contract all logging and road building activities. Historically, 50% of the Company's log harvesting was performed by contractors.

The Company began 2005 with all of its harvesting and road building functions contracted out to stump-to-dump operators. Despite challenging weather conditions at the beginning of the year, the transition to a contractor workforce progressed smoothly and unit costs have benefited.

The Company completed the final phase of the business transformation initiative early in 2005. This involved the buy-out of leases on company-operated logging equipment for \$21.0 million, and the subsequent sale of this leased equipment and other company-owned logging equipment to long-term contractors for proceeds of approximately \$25.1 million. Other income for the year ended December 31, 2005 includes a gain on disposal of logging equipment of approximately \$4.0 million.

Going forward, this initiative is expected to result in further cost reductions and improved flexibility, both of which should improve the competitiveness of the organization over time.

This new business model allows the Company to operate with fewer salaried positions. During the second quarter of 2005, the Company recorded a \$2.0 million restructuring charge and eliminated additional salaried positions in the timberland and corporate overhead components of its business. The Company expects that this restructuring will provide savings of \$1.6 million per year.

### ***Timber Reallocation Agreement***

In March 2005, the Company reached an agreement with the Province of British Columbia to compensate the Company for the loss of timber harvesting rights through the timber tenure reallocation process under the Province's Forestry Revitalization Plan. Under the agreement, the Company's Crown timber harvesting rights were reduced, including a 33,207 m<sup>3</sup> reduction to Tree Farm Licence 47 and a 2,252 hectare reduction to two Timber Licences held by the Company. These rights are expected to be reallocated by the Province to community forests, woodlots, First Nations and an expanded BC timber sales program.

In the first quarter of 2005, TimberWest received \$3.7 million in compensation for the loss of logging rights and for improvements made to these areas by the Company, including roads and bridges associated with the areas being reallocated from these tenures.

### ***Increase in Long Run Sustainable Harvest***

On October 19, 2004, the Company announced an increase in the long run sustainable harvest on its private timberlands, from 2.3 million m<sup>3</sup> to 2.5 million m<sup>3</sup> on the basis of improvements in the underlying growth rates of the forest inventory and due to yield increases from a range of silviculture practices.

During the second quarter of 2005, the Company's independent auditor, KPMG Performance Registrar Inc., completed its assessment of the Company's determination and confirmed that the Company's long term harvest level determination of 2.5 million m<sup>3</sup> on the Company's private timberlands can be maintained for the next 50 years, after which it declines to 2.36 million m<sup>3</sup>, and that the Company's analysis meets all SFI<sup>®</sup> requirements.

To improve the value of the Company, TimberWest commenced an initiative in 2005 to further increase the harvest level on its private lands through improved forest management. This year and, markets permitting, over the next three to five years, the Company anticipates increasing private land harvests by about 500,000 m<sup>3</sup>, to approximately 3.0 million m<sup>3</sup> per year. This additional harvest will come from low-margin, low-productivity stands, most of which have over-mature timber. Where practicable, these stands will be re-established with better stock while others will be left to regenerate naturally. The Company's analysis of this additional harvest volume demonstrates that taking low-productivity stands out at a faster rate will have no material effect on the Company's long run sustainable harvest over the next 50 years.

#### *Termination of Fibre Supply Agreement*

During the third quarter of 2005, the Company reached an agreement to terminate a fibre supply agreement with Western Forest Products Inc. for payment of \$15.0 million. This fibre supply agreement was originally entered into in 1997 and required the Company to offer Western, in perpetuity, an annual volume of 330,000 m<sup>3</sup> of sawlogs at domestic prices.

This transaction is expected to provide future benefits for the Company as it removes a further encumbrance and with this volume of logs now released for potential export, it will enable the Company to realize a higher value for this fibre as these logs can be released to the export market.

#### *Sales Process for Elk Falls Lumbermill*

A strategic review of TimberWest's assets undertaken in 2005 and it was determined that the Company would be in a superior competitive position without the Elk Falls Lumbermill. As a result, early in the fourth quarter of 2005, the Company commenced a sales process for the lumbermill. This process has continued into 2006.

### **Forest Resources**

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.

#### *Overview of Forest Resources*

The following table presents the Company's annual harvest, including the long-run sustainable harvest from the Private Timberlands, the AAC from TFL 47 and Forest Licences, and the historic annual harvest level on Timber Licences outside of TFL 47:

| <b><u>Forest Resources</u></b>          | <b><u>mm<sup>3</sup></u></b> | <b><u>% of Total</u></b> |
|---|------------------------------|--------------------------|
| Private Timberlands                     | 2,500                        | 77                       |
| Crown Tenures                           |                              |                          |
| TFL 47 <sup>(1)(2)(3)(4)</sup>          | 639                          | 20                       |
| Forest Licences <sup>(4)</sup>          | 64                           | 2                        |
| Timber Licences <sup>(1)(2)(4)(5)</sup> | 33                           | 1                        |
| <b>Total Crown Tenures</b>              | <b>736</b>                   | <b>23</b>                |
| <b>Total</b>                            | <b>3,236</b>                 | <b>100</b>               |

(1) AAC determinations for Crown tenures include waste and residue.

(2) Annual harvest from Timber Licences within the boundaries of the TFL is included with the AAC of the TFL.

(3) The AAC for the portion of TFL 47 managed by TimberWest is 646,793 m<sup>3</sup> and has temporarily been reduced by 8,000 m<sup>3</sup> under the provisions of Part 13 – Designated Areas of the *Forest Act* for lands being considered for protected area status or some other status which is incompatible with logging. The AAC of TFL 47 was reduced by 33,207 m<sup>3</sup> effective March 31, 2003, under the *Forestry Revitalization Act* (British Columbia), however, TimberWest's right to harvest this volume continued until December 31, 2004.

(4) Certain of the Company's Crown tenures are subject to an asset sales agreement with transfer to the purchaser pending. AAC related to these tenures of approximately 116 m<sup>3</sup> has been excluded from this summary of forest resources.

- (5) The rate of harvest on Timber Licences is at the discretion of the licensee. Although harvests from Timber Licences have averaged approximately 33 mm<sup>3</sup> over the past ten years, this may not accurately reflect what may be harvested from them in the future. Harvests from Timber Licences subject to an asset sales agreement pending transfer to the purchaser are not included in this figure.

### **Private Timberlands**

**TimberWest's Private Timberlands.** TimberWest owns in fee simple approximately 334,000 hectares of Private Timberland. These timberlands are located on Vancouver Island and the majority of the land base supports the growth of Douglas fir, a premium tree species sought after for structural purposes. TimberWest's Private Timberlands support mainly second-growth forests on some of the most productive growing sites in British Columbia which have an average annual growth rate of approximately 8.7 m<sup>3</sup> per hectare. The productivity of our second-growth forest is being enhanced by intensive forest management practices such as timely reforestation, selective breeding of trees for genetic improvement and late-rotation forest fertilization.

**Benefits of Private Timberlands.** Private Timberland provides the following advantages over Crown timber tenures in British Columbia:

- **Absence of Stumpage Costs.** Stumpage fees are a considerable cost component for logs harvested from Crown lands, whereas timber harvested from Private Timberlands is stumpage free. Consequently, despite the requirement to pay property taxes on these lands, the Private Timberlands have a significant value differential.
- **Export Markets.** TimberWest has the ability to export logs from its Private Timberlands to the higher-value export log markets, albeit with some restrictions imposed by the provincial and federal governments.
- **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. The Company has approximately 905 hectares of the Private Timberlands located within TFL 47 that are subject to government imposed harvest levels. 168 hectares of these lands are subject to an asset purchase agreement.
- **Lower Administrative Costs.** The Private Timberlands held outside of Crown timber tenures are not subject to the administrative burden of provincial legislation and regulations that apply to Crown timber tenures and private timberlands within TFLs. The Private Timberlands, however, are subject to a set of results-based environmental protection and reforestation principles under the provisions of the *Private Managed Forest Land Act* and regulations enacted in November 2003. These principles protect the key public values of fish habitat, water quality, soil conservation and critical wildlife habitat. Compliance with these principles can be achieved at significantly lower cost to TimberWest while continuing to maintain high standards of forest management.

**Long-run Sustainable Harvest.** TimberWest has established the long-run sustainable harvest for the Private Timberlands to be 2.5 million m<sup>3</sup> per year for the next 50 years, after which it declines to 2.36 million m<sup>3</sup>, under current forest management practices, representing approximately 77% of the total company harvest. This harvest level reflects TimberWest's current assumptions regarding the Company's reforestation and genetic improvement programs and reflects the current age class distribution of the second-growth stands, expected growth rates and expected harvest constraints for environmental protection or community value purposes. This forms the basis for the Company's harvest plans, however, market conditions may dictate changes to the actual volume of timber harvested in a particular year.

The calculation of long-run sustainable harvest implicitly assumes that the entire inventory on the Company's land base will be economic to harvest at some time, now or in the future. At any given point in time there may be inventory that is uneconomic to harvest but, due to changes in costs, technology, and/or markets, over time this may change. This has proven to be the case historically. The long-run sustainable harvest is 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.

On October 19, 2004, the Company announced an increase in the long run sustainable harvest on its private timberlands, from 2.3 million m<sup>3</sup> to 2.5 million m<sup>3</sup> on the basis of improvements in the underlying growth rates of the forest inventory due to yield increases from a range of silviculture practices.

During the second quarter of 2005, the Company's independent auditor, KPMG Performance Registrar Inc., completed its assessment of the Company's determination and confirmed that the Company's long term harvest level determination of 2.5 million m<sup>3</sup> on the Company's private timberlands can be maintained for the next 50 years, after which it declines to 2.36 million m<sup>3</sup>, and that the Company's analysis meets all SFI<sup>®</sup> requirements.

To improve the value of the Company, TimberWest commenced an initiative in 2005 to further increase the harvest level on its private lands through improved forest management. This year and, markets permitting, over the next three to five years, the Company anticipates increasing private land harvests by about 500,000 m<sup>3</sup>, to approximately 3.0 million m<sup>3</sup> per year. This additional harvest will come from low-margin, low-productivity stands, most of which have over-mature timber. Where practicable, these stands will be re-established with better stock while others will be left to regenerate naturally. The Company's analysis of this additional harvest volume demonstrates that taking low-productivity stands out at a faster rate will have no material effect on the Company's long run sustainable harvest over the next 50 years.

**Inventory.** The total Merchantable Timber Inventory on the Private Timberlands as at December 31, 2005, is estimated to be 41.6 million m<sup>3</sup>. 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 43,800 hectares are non-productive.

**Age Class Distribution.** 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 timber 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, 2005, approximately 64% (2004 – 63%) 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 table that follows illustrates the approximate age class distribution of trees on the Private Timberlands.

| <u>Age Class Distribution as at December 31, 2005</u> | <u>Hectares</u> <sup>(1)</sup> | <u>%</u>   |
|---|--------------------------------|------------|
| (years)   | (in thousands)                 |            |
| 0-9 .....   | 42.8                           | 13         |
| 10-19 .....   | 25.6                           | 8          |
| 20-29 .....   | 31.4                           | 9          |
| 30-39 .....   | 45.2                           | 14         |
| 40-49 .....   | 38.0                           | 11         |
| 50-59 .....   | 36.4                           | 11         |
| 60-69 .....   | 19.8                           | 6          |
| 70-79 .....   | 10.4                           | 3          |
| 80-119 .....  | 12.7                           | 4          |
| 120+ .....  | 27.9                           | 8          |
| <b>Total Productive .....</b>                         | <b>290.2</b>                   | <b>87</b>  |
| <b>Non-productive or Inoperable .....</b>             | <b>43.8</b>                    | <b>13</b>  |
| <b>Total Private Timberlands .....</b>                | <b>334.0</b>                   | <b>100</b> |

(1) These figures include timber that is not currently merchantable. The current inventory of Merchantable Timber is estimated to be 41.6 million m<sup>3</sup>.

**Species Distribution.** Douglas fir is the predominant species on the Private Timberlands, comprising approximately 56% 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. 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 30% of the total British Columbia coastal harvest volume, including harvests from Crown, private and federal lands and First Nations reserves for the year ended December 31, 2005 (2004 – 28%).

**Taxation.** Most of the Private Timberlands are classified as Managed Forests under the *Assessment Act (Forest Land) Regulation* (British Columbia), which governs the taxation of privately owned lands and provides for a lower property tax rate for timberlands classified as Managed Forests. Property taxes on the Private Timberlands were \$5.8 million for 2005, or \$2.02 per m<sup>3</sup> harvested, compared to \$6.4 million, or \$2.54 per m<sup>3</sup> for 2004.

### **Crown Timber Tenures**

Approximately 95% of all forest lands in the Province of British Columbia are Crown land. Under the *Forest Act*, the *Forest and Range Practices Act* and the Forest Practices Code, the Ministry of Forests and Range 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 Crown timber tenures provide licence holders with long-term access to mature timber through renewable licences. Logs from Crown timber tenures may be exported from British Columbia, subject to provincial log export policy. The Crown charges a stumpage fee on timber harvested from Crown lands. Stumpage costs for all harvests from Crown tenures in coastal British Columbia averaged approximately \$11 per m<sup>3</sup> in 2005.

**TimberWest's Crown Tenures.** TimberWest's four renewable long-term Crown timber tenures, including one Tree Farm Licence and three Forest Licences, represent approximately 23% of the total company harvest. TimberWest's Crown timber tenures currently have an AAC of approximately 0.7 million m<sup>3</sup>. The Company's Crown tenures include:

- **Tree Farm Licence.** TFLs are area-based tenures granted for a term of 25 years and are generally replaced within a five to nine year period 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 and Range. 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 one TFL, TFL 47, which was renewed for a 25 year term effective March 1, 2000. Approximately 905 hectares of the Company's Private Timberlands remain within TFL 47, of which 168 hectares are subject to an asset purchase agreement.
- **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 and Range on a sustainable harvest 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 replaced 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 and Range. TimberWest holds three replaceable Forest Licences, two of which were last renewed in 2004. The third Forest Licence, which is subject to an asset sale agreement, is currently under review by the Ministry of Forests and Range.
- **Timber Licences.** Timber Licences are area-based tenures and are located within either a Timber Supply Area (TSA) or a TFL. TimberWest holds Timber Licences both within and outside of TFL 47. 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 a Forest Development Plan approved by the Ministry of Forests and Range. The timing of harvesting from these tenures is subject to the Forest Practices Code and the *Forest and Range Practices Act*, but is otherwise at the discretion of the holder. These licences are for terms varying from 5 to 35 years.

**Species Distribution.** The species distribution, by standing volume, on TimberWest's Crown tenures is estimated to be approximately 64% hemlock/balsam, 18% Douglas fir, 8% western red cedar and 10% cypress, Sitka spruce and other. For the year ended December 31, 2005, approximately 87% (2004 – 85%) 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.

## **Forest Management**

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### ***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 harvest 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, fertilization, juvenile spacing and commercial thinning, along with genetic research and the development and planting of superior trees.

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.

Forest management operations on TFLs are guided by Management Plans, which are subject to approval by the Chief Forester of British Columbia every five years (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.

TimberWest maintains a forest practices audit system to assess forest management performance for activities on its forest resources. 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. These audits review both forest practices and facility operations. This environmental management system received ISO 14001 certification in November 1999 and continues to be in compliance with this international standard.

### ***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 fluctuation in annual earnings as a result of weather related factors having an affect on harvesting operations. Earnings in the second half of the year generally trend lower as the result of fire season shutdowns, and increased costs of harvesting at higher elevations late in the year due to difficult terrain.

### ***Harvesting***

On June 24, 2004, the Company announced a plan to transform its business model through a restructuring of the Company’s log harvesting operations and a move to contract all logging activities. Historically, 50% of the Company’s log harvesting was performed by contractors. Under the transformation plan, the Company has contracted the remainder of its logging activities to unionized contractors on a competitive-bid basis, effective January 1, 2005.

The Company’s independent contractors use a wide range of equipment, including road building and maintenance equipment, crew transportation vehicles, timber falling equipment, yarding systems, harvesters, log loaders and log trucks, to carry out harvesting operations. While the majority of TimberWest’s harvesting activities are conducted using conventional logging systems, helicopter logging is used to access otherwise inaccessible, high-value timber, or to minimize environmental impact. In addition, innovative harvest systems are being utilized by contractors on certain second-growth stands on both the Private Timberlands and Crown timber tenures.

The operations of contractors on TimberWest private lands and Crown tenures are guided by a number of policies, standards and procedures to ensure regulatory compliance and to optimize value recovery from the forest.

Contractors are bound by their contracts to comply with TimberWest’s contractor safety policy. Contractors must have a suitable health and safety program in place and ensure any subcontractors they may employ also have health and safety programs. Contractors must demonstrate their commitment to safety in the workplace through active leadership and supervision in managing health and safety issues. Contractors are required to provide safety training and equipment to their workers. Contractors are also required to report all safety incidents to TimberWest and relevant regulatory bodies, and to monitor, report and work to continually improve their safety performance. TimberWest also monitors and reviews contractor safety performance.

Contractors must abide by the standards and guidelines set forth in TimberWest’s environmental management system, as well as all relevant federal and provincial Acts and Regulations. Contractors are required to provide training to their employees to ensure they understand the requirements of the environmental management system. TimberWest monitors contractor performance and when required, takes necessary action to ensure maintenance of the Company’s environmental certifications.

Recovering optimum value from forest resources requires that log manufacturing and value recovery standards be met. Contractors are required to develop standard operating procedures for log manufacturing and value recovery outlining how specified criteria will be met. TimberWest reviews and approves the operating procedures prior to work commencing.

Contractors are required to develop standard operating procedures and best management practices for each of the above policies and standards as a guide to meeting required performance levels. TimberWest utilizes a contractor management system to measure and monitor performance and ensure compliance with these policies and standards.

All harvesting on Crown timber tenures must meet the standards of the Forest Practices Code and the *Forest and Range Practices Act* for protection of forest values. Future harvest areas on Crown timber tenures are identified within Forest Development Plans which the Ministry of Forests and Range approves after ensuring that all forest resources will be adequately managed and conserved. These plans are generally made available to the public for review and comment. Site Plans are completed for each proposed harvest block, detailing measures for the protection of other resources and proposed reforestation activities and goals. The Ministry of Forests and Range issues cutting permits for individual areas, which 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.

| <b><u>Timber Tenure</u></b>               | <b><u>Log Production</u></b><br>(mm <sup>3</sup> ) |                    |
|---|--|--------------------|
|   | <b><u>2005</u></b>                                 | <b><u>2004</u></b> |
| Private Timberlands <sup>(1)</sup> .....  | 2,875  | 2,541              |
| Tree Farm Licence <sup>(1)(2)</sup> ..... | 741  | 617                |
| Timber Licences <sup>(2)</sup> .....      | –  | 75                 |
| Forest Licences <sup>(2)</sup> .....      | 17   | 173                |
|   | <b>3,633</b>                                       | <b>3,406</b>       |

(1) TFL log production excludes harvests from Private Timberlands located within the boundaries of the TFL.

(2) Log production on Crown tenures excludes production on tenures managed by other parties.

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

| <b><u>Tree Species</u></b> | <b><u>Log Production</u></b><br>(mm <sup>3</sup> ) |                    |
|----------------------------|--|--------------------|
|                            | <b><u>2005</u></b>                                 | <b><u>2004</u></b> |
| Douglas fir .....          | 1,823  | 1,615              |
| Hemlock/balsam.....        | 809  | 702                |
| Cedar .....                | 149  | 138                |
| Cypress.....               | 74   | 63                 |
| Other .....                | 20   | 23                 |
|                            | <b>2,875</b>                                       | <b>2,541</b>       |

In recent years, approximately 63% 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.

The species distribution for the combined production on the Private Timberlands and Crown timber tenures during 2005 was 57% Douglas fir, 33% hemlock/balsam, 6% cedar and 4% other species.

### ***Reforestation***

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 Managed Forest Land Act* and regulations. 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 accounted for as operating expenditures.

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 to meet TimberWest's reforestation commitments are generally met through sowing the Company's own seed in contract nurseries, and may be supplemented by the purchase of high-yield seed from other seed orchards.

### ***Forest Protection***

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 and Range. 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.

## **Forest Policy and Regulation**

### ***Allowable Annual Cut Determination***

The AAC for TFLs and timber supply areas is determined by the Chief Forester of British Columbia and reflect timber conditions, regional and local economic and social interests, and environmental considerations. Harvest levels by the tenure holder are permitted to vary from year to year as long as the cumulative harvest within a cut control period, typically five years in length, does not exceed the cumulative AAC for the period by more than 10%. Overcuts at the end of the cut control period are considered as volume harvested in the successive cut control period. Overcuts of more than 10% are subject to penalties. If the volume of timber harvested in the cut control period is less than the sum of the AAC's for that period, the tenure holder is not permitted to harvest the unharvested volume in the subsequent period and the Ministry of Forests and Range may dispose of the unharvested volume to a person other than the tenure holder.

The *Forest Act* requires the Chief Forester to determine an AAC for every TFL and timber supply area in the province every five years after the last determination. The AAC for TFL 47 was determined on July 29, 2003. The AAC for TFL 47 increased 13.2% from 688,758 m<sup>3</sup> to 780,000 m<sup>3</sup> and was in force August 1, 2003. The

effective AAC for TFL 47 at this time was 772,000 m<sup>3</sup>, reflecting a temporary reduction of 8,000 m<sup>3</sup> on an area of 1,387 hectares on Hansen Island being considered for protected area status under Part 13 of *Forest Act*. Government is mandated to make decisions on this temporary reduction prior to March 31, 2006. The effective AAC for TFL 47 has been further reduced by 33,207 m<sup>3</sup> to 738,793 m<sup>3</sup> effective March 31, 2003, under the provisions of a 20% takeback of tenure under the *Forestry Revitalization Act*. A portion of TFL 47 is subject to an asset sale agreement with the transfer to the purchaser pending. This portion of TFL 47 has an AAC of 100,000 m<sup>3</sup>, leaving an AAC attributable to TimberWest of 638,793 m<sup>3</sup> for TFL 47.

The Company holds Timber Licences outside of TFL 47. Harvest levels on Timber Licences outside of TFLs are unregulated and there are no cut control requirements on these licences. Over the last ten years, the Company has harvested approximately 33,000 m<sup>3</sup> from its Timber Licences held outside of TFLs, excluding those subject to an asset sale agreement.

The Company holds two Forest Licences in the Strathcona Timber Supply Area and a single Forest Licence in Queen Charlotte Island Timber Supply Area which is subject to an asset sale agreement with the transfer to the purchaser pending. The AAC for the Strathcona Timber Supply Area was last determined by the Chief Forester on July 28, 2005, and resulted in the AAC of the Strathcona Timber Supply Area being reduced by 4.8% to 1.217 million m<sup>3</sup> on August 1, 2005. The AAC was further reduced by 16,000 m<sup>3</sup> by the Chief Forester on December 9, 2005, in consideration of designated areas established under Part 13 of the *Forest Act*. Neither reduction has yet to be apportioned to individual licence holders affecting their timber harvesting rights. TimberWest currently has a right to harvest 63,739 m<sup>3</sup> under its Forest Licences in the Strathcona Timber Supply Area. The Forest Licence in Queen Charlotte Island Timber Supply Area permits the annual harvesting of 15,945 m<sup>3</sup> and reflects reductions made to the AAC as a result designated areas established under Part 13 of the Forest Act.

#### ***Stumpage Charges***

The government of British Columbia periodically establishes the fees to be paid for the right to harvest timber on 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 \$10.7 million and \$13.4 million for the years ended December 31, 2005 and 2004, 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 and Range 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 and against the standards of SFI® and the *Private Managed Forest Land Act* and regulations.

#### ***TFL Management Plans***

Forest management operations on TFLs are guided by Management Plans, which are approved every five years by the Ministry of Forests and Range. 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 and Range policy requires integrated management and protection of the full range of forest values. Draft plans are prepared by licensees 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 updated its Management Plans for TFL 47 and submitted them to the Chief Forester in 2001. The plan was approved in March 2002.

#### ***Forest Practices Regulations***

In March 2003, the government of British Columbia introduced the Forestry Revitalization Plan which provided for significant changes both to Crown forest policy, including the Forest Practices Code, and to the existing allocation of Crown timber tenures to licensees.

Since introducing its Forestry Revitalization Plan, the government has focused on initiatives to trim bureaucracy, provide increased operating flexibility and reduce costs incurred by Crown tenure holders, while preserving environmental values. The government has introduced changes to the Forest Practices Code, stumpage, cut control, appurtenancy and tenure transfers. In addition, the government has introduced the *Forest and Range Practices Act* – a results-based forest practices code. The *Forest and Range Practices Act* will over time replace the Forest Practices Code.

In November 2003, the provincial government introduced the *Private Managed Forest Land Act* and regulations. This new act is results-based, recognizes private property rights and protects owners' freedom to manage. This new act continues to establish protection objectives for the key public environmental values of fish habitat, water quality, critical wildlife habitat, soil conservation and the growing of trees. This Act and the related regulations were enacted August 3, 2004.

TimberWest focuses on providing its employees with the knowledge and skills they require in order to carry out their daily tasks in full compliance with the Forest Practices Code, the *Forest and Range Practices Act*, the *Private Managed Forest Land Act* and other applicable regulations. TimberWest's employees administer agreements with contractors to ensure that they have systems in place to protect the Company's lands and meet regulatory requirements as well as any other specified commitments made by the Company. One component of TimberWest's internal forest practices audits involves the assessment of ongoing compliance with these principles. TimberWest is in substantial compliance with these regulations.

### ***Log Export Regulations***

Provincial log export regulations limit opportunities for companies to export logs from Crown timber tenures, such as Forest Licences and TFLs and certain private lands, including any private timberlands within a TFL. Provincial log export regulations require a surplus test and restrict the export of certain species and log qualities. A provincial export tax is levied on all logs under provincial regulation. The export tax varies by species and is set as a percentage of the domestic selling price of the log grades being exported. The application of a surplus test and the export tax creates a constraint on the export of logs under provincial regulation.

Logs from most private timberlands outside a TFL are not subject to provincial export regulations, however, the export of private land logs out of BC is restricted by the federal government's surplus test, Notice 102. This test requires that private forest landowners offer their logs up for sale first in BC at domestic prices, which are almost always lower than export prices, and only if there is no buyer in BC, can a private forest landowner then sell logs outside of the country. This restriction applies only to BC landowners and has the effect of depressing the price for both Crown and private land logs on the coast of BC. Private forest landowners in all other provinces, and in the US, are free to sell their logs to any customer they choose. As discussed under "Legal Proceedings – Notice 102" in this annual information form, the Company has commenced legal action against the federal government seeking the repeal of this discriminatory legislation.

### ***Assessment Act and Forest Land Reserve Act and Private Managed Forest Land 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.

In 2002, the Land Reserve Commission was restructured and the regulation for private forest land was amended, including the phasing out of the Forest Land Reserve and replacement with new government initiatives.

The *Private Managed Forest Land Act* and regulations require private forest land owners to 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. A Private Managed Forest Land Council has also been established and is responsible for administering the act and any bylaws associated with it.

### ***Environment and Land Use Issues***

Environmental standards on TimberWest's Crown timber tenures are established principally under the Forest Practices Code. Principal regulators of the Code include: the British Columbia Ministry of Forests and Range being responsible for administering and monitoring performance; the British Columbia Ministry of Agriculture and Lands being responsible for planning and the British Columbia Ministry of Environment 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 Managed Forest Land Act* and regulations 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 Private Managed Forest Land Council will undertake 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 that is sensitive to the concerns of local interests and neighbouring owners. Forest practices such as Variable Retention are employed in certain of these areas and encompass 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 forest hydrologist. Input to the plan is sought from licenced water users.

### ***Aboriginal Land Claims***

TimberWest cannot predict whether aboriginal land claims or other rights in British Columbia will affect its existing Crown timber tenures. With respect to the Company's private timberlands, aboriginal rights cannot adversely affect the tenure of fee simple land and the Company's rights that attach to them.

Canadian courts have recognized that aboriginal peoples may possess 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 Canadian 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 land in the province over which they claim aboriginal title 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.

Canadian governments have a duty to consult with and possibly accommodate aboriginal groups where their rights may be affected.

### ***Log Marketing***

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TimberWest engages in extensive log marketing 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 processes approximately 0.9 million m<sup>3</sup> of logs each year, of which approximately 70% is provided by TimberWest's log harvest. The balance of the mill's fibre requirement is purchased from external sources in order to provide a mix of logs that is best suited to the products manufactured by the lumbermill.

With a combined AAC from Crown timber tenures of 0.7 million m<sup>3</sup> per year and a long-run sustainable harvest of 2.5 million m<sup>3</sup> per year from the Private Timberlands, approximately 3.2 million m<sup>3</sup> of logs are available annually, including a combination of sawlogs and pulplogs. Included in TimberWest's log sales are commitments of approximately 0.9 million m<sup>3</sup> per year in aggregate to Catalyst and Catalyst's chip suppliers pursuant to fibre supply agreements with Catalyst (see "Fibre Supply Agreements"). Revenues from log sales were \$327.9 million and \$337.6 million for 2005 and 2004, respectively.

### ***Log Exports***

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

Approximately 1.6 million m<sup>3</sup> and 1.2 million m<sup>3</sup> of logs were sold to export markets during 2005 and 2004, respectively. During 2005, average sales realization for logs sold in export markets were approximately \$25 per m<sup>3</sup> higher than would have been realized for these same logs in domestic markets, down from an average premium on export sales of \$33 per m<sup>3</sup> realized on 2004 export sales.

### ***Fibre Supply Agreements***

TimberWest has entered into several agreements with Catalyst Paper Corporation. As detailed below, these arrangements make sawlogs available to Catalyst and also provide Catalyst with a supply of wood fibre.

In 1993, TFL Forest entered into several agreements with Catalyst's predecessor corporation 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. Catalyst pays various fees to TimberWest for services provided under the 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 or subsequently acquired by TFL Forest or acquired as part of its log acquisition program in the coastal area, are sold to Catalyst under a Chip and Pulplog Supply Agreement. This agreement contains minimum chip 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 Catalyst at prevailing Vancouver log market prices.

The Chip and Pulplog Supply Agreement has an indefinite term, subject to Catalyst'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 Catalyst. 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 Catalyst under the agreement.

TFL Forest sells to Catalyst, 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 offer for sale to designated wood chip suppliers of Catalyst 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 Catalyst on 12 months notice to TFL Forest.

Under a Pulplog Services Agreement, TFL Forest provides pulplog services to Catalyst related to log storage. This agreement remains in force for as long as TFL Forest has obligations under the Chip and Pulplog Supply Agreement.

### **Lumber Manufacturing and Sales**

TimberWest manufactures and markets a wide range of lumber products. By-products of the manufacturing process, in the form of chips and sawdust, are an important source of raw materials for pulp and paper mills. The Company currently has one lumbermill, the Elk Falls Lumbermill.

As part of a strategic review of TimberWest's assets undertaken in 2005, it was determined that the Elk Falls Lumbermill may have a more logical owner. As a result, early in the fourth quarter of 2005, the Company commenced a sales process for the Elk Falls Lumbermill. This process has continued into 2006.

#### ***Elk Falls Lumbermill***

TimberWest's Elk Falls Lumbermill facility, located at Campbell River on Vancouver Island, consists of a medium-diameter log lumbermill, an integrated chipping facility, a planermill and dry kilns. The lumbermill processes medium-diameter logs either harvested from TimberWest's logging operations or traded or purchased specifically for this operation.

The Elk Falls Lumbermill operates three shifts per day, five days per week. The lumber and wood chip production volumes for the mill for each of 2005 and 2004 were as follows:

| <b><u>Product</u></b>              | <b><u>Year ended December 31</u></b> |                    |
|------------------------------------|--------------------------------------|--------------------|
|                                    | <b><u>2005</u></b>                   | <b><u>2004</u></b> |
| Lumber (mmfbm).....                | 168                                  | 180                |
| Wood chips (mm <sup>3</sup> )..... | 310                                  | 349                |

Lumber sales are predominantly hemlock and Douglas fir specialty and dimension lumber. Approximately half of the lumber produced at the Elk Falls operation is exported to Japan for use in traditional Japanese housing.

Wood-based housing has historically accounted for over 500,000 housing units annually, which represents approximately 40-45% of total Japanese housing starts, while traditional housing represents 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 generally more stable and provide improved margins over commodity grades in the North American market. Lumber is also shipped into other markets such as the United States, China, Belgium, Australia and Taiwan.

All residual by-products produced by the Elk Falls Lumbermill are committed to Catalyst under various long-term supply arrangements at prevailing market prices for use at its Elk Falls pulp and paper mill.

The geographic distribution of lumber sales, based on volume, for both fiscal 2005 and 2004 is summarized in the following table:

| <u>Country</u>      | <u>Year ended December 31</u> |             |
|---------------------|-------------------------------|-------------|
|                     | <u>2005</u>                   | <u>2004</u> |
| Japan .....         | 48%                           | 48%         |
| Canada.....         | 20%                           | 18%         |
| China .....         | 16%                           | 10%         |
| United States ..... | 10%                           | 10%         |
| Other .....         | 6%                            | 14%         |
|                     | 100%                          | 100%        |

Waterborne 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.

#### ***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, China, the United States, Belgium and Australia. In Japan, lumber production is sold to importers and housing manufacturing companies through TimberWest's lumber marketing group, located in Vancouver. In Canada, lumber production is sold directly to specialty lumber manufacturers whose products are primarily oriented towards industrial end users in North America, Japan, China and Europe. In Belgium and other countries, 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, 2005, TimberWest's top ten lumber customers represented approximately 66% 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:

| <u>Year ended December 31</u> | <u>Sales</u><br>(\$ millions) | <u>Market Distribution of Lumber Sales Revenue</u><br>(% of total) |               |                      |              |              |
|-------------------------------|-------------------------------|--|---------------|----------------------|--------------|--------------|
|                               |                               | <u>Japan</u>   | <u>Canada</u> | <u>United States</u> | <u>China</u> | <u>Other</u> |
| 2005.....                     | \$ 92.2                       | 62%  | 10%           | 8%                   | 10%          | 10%          |
| 2004.....                     | \$106.2                       | 60%  | 11%           | 8%                   | 6%           | 15%          |

#### ***Softwood Lumber Dispute***

US trade measures have affected the Company's domestic log customers and will continue to have an effect on softwood lumber producers in BC, including the Company's ability to export softwood lumber from the Elk Falls Lumbermill to the US.

On May 22, 2002, the US Department of Commerce (DOC) imposed countervailing duties (CVD) of 18.8% against Canadian softwood lumber exports to the US. Also on May 22, 2002, the DOC imposed anti-dumping duties (ADD), which for TimberWest were set at 8.4%. The Canadian federal and provincial governments have launched challenges of these tariffs under the North American Free Trade Agreement (NAFTA) and with the World Trade Organization (WTO). There have been a number of decisions and actions between May 2002 and the present, including the US DOC's issuance of final results of a second administrative review in December 2005, which saw the CVD reduced to 8.70% and the ADD reduced to 2.11% for a total deposit rate of 10.81%. At present, TimberWest's combined CVD/ADD rate is 10.80%. A summary of recent decisions and actions can be found under "Uncertainties – Softwood Lumber Dispute" in this annual information form.

Lumber sales by TimberWest into the US were not significant during 2005. Approximately \$1.5 million of combined CVD and ADD on softwood lumber shipments to the US have been reflected in the Company's financial results as an element of cost of sales for the year ended December 31, 2005. Since the softwood lumber dispute began in 2002, the Company has paid combined CVD and ADD of \$3.8 million. Cash payments for both the CVD and ADD have been made at the assessed rates.

### **Real Estate Properties and Other Income**

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TimberWest has a portfolio of higher-use properties bordering lakes, streams, mountains and existing urban developments that comprise approximately 6,200 hectares at this time. These Real Estate Properties consist of fee simple lands suitable for purposes such as conservation, residential, recreational, commercial and industrial uses. These properties are identified as TimberWest determines them to have a higher value to other owners. This portfolio has grown since inception, in hectares and in value, but this may not always be the case. Real estate conditions as well as timberland conditions change over time, which can cause the value and size of the higher-use property portfolio to change.

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. For the year ending December 31, 2005, net proceeds from the sale of Real Estate Properties was \$13.9 million, compared to \$10.5 million in 2004.

Additional Real Estate Properties will become available as a result of the continuous urban population growth in centres interfacing with our forestland and along the recently completed 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.

A strategic review of TimberWest's entire land holdings is underway and will be completed in 2006. The objective of this review is to ensure that values are being optimized and that lands are being put to their highest and best economic use, be that commercial forestry or real estate development. Going forward, real estate is expected to play a greater role in delivering value to TimberWest's unitholders than it has in the past.

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. The Private Timberlands also have potential value to be realized from other uses, such as coal bed methane gas and mineral rights.

TimberWest is committed to exploring opportunities to create additional value from its existing land base, including participation in real estate activity and the development of other revenue streams where value may be added.

## **Human Resources**

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As at December 31, 2005, TimberWest employed 429 active salaried and hourly employees, compared to 456 employees as at December 31, 2004 (297 of whom were associated with the Elk Falls Lumbermill). The decrease in employees from the previous year is primarily attributed to the restructuring of the salaried workforce in the timberland operations following the Company's move to a contractor model.

The distribution of employees by business area at December 31, 2005 is as follows:

| <b><u>Business Area</u></b>                | <b><u>Salaried</u></b> | <b><u>Hourly</u></b><br>(# of employees) | <b><u>Total</u></b> |
|--|------------------------|--|---------------------|
| Elk Falls Lumbermill .....                 | 27                     | 276                                      | 303                 |
| Timberland and Real Estate operations..... | 79                     | 31                                       | 110                 |
| Corporate.....                             | 16                     | -  | 16                  |
| <b>Total .....</b>                         | <b>122</b>             | <b>307</b>                               | <b>429</b>          |

TimberWest employs a small unionized workforce on its timberland operations and contracts for the remainder of its harvesting and road building activities. TimberWest also employs a unionized workforce in its lumber manufacturing and shipping operations. Strikes or lockouts at the Company's, its contractors' or its customers' operations could restrict the Company's ability to carry on business and could have a material adverse effect on the Company's financial condition and operating results.

At December 31, 2005, the Company had four collective agreements in place that cover all of its unionized employees.

### ***The United Steelworkers of America Collective Agreement***

The United Steelworkers of America (USWA) is the certified bargaining agent for a small number of TimberWest's hourly employees involved primarily in engineering and forestry activities at the Company's timberland operations. The current collective agreement with USWA provides for wage increases of 2% in 2006. This agreement expires on June 14, 2007.

### ***The Communications, Energy & Paperworkers Collective Agreement***

The Communications, Energy & Paperworkers (CEP) is the certified bargaining agent for TimberWest's hourly employees at the Elk Falls Lumbermill. The current collective agreement with CEP expires on May 1, 2006.

### ***The International Longshore & Warehouse Union – Canada Collective Agreements***

The International Longshore & Warehouse Union – Canada (ILWU Canada) is the certified bargaining agent for hourly employees at TimberWest's Stuart Channel Wharves operation. TimberWest is a member of the British Columbia Maritime Employers Association and the Waterfront Foreman Employers Association. Each of these associations negotiates a master agreement with ILWU Canada locals on behalf of industry members. These two collective agreements with ILWU Canada provide for wage increases of 3.2% in 2006. These agreements expire on March 31, 2007.

## **Environmental Matters**

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TimberWest is in 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.

TimberWest employs an environmental management system to ensure the Company's operations are in compliance with environmental laws and regulations. During 1999, TimberWest was awarded ISO 14001 certification for all of its operations, both forest related and manufacturing, which indicates that TimberWest's operations have appropriate systems in place to provide substantial compliance with applicable federal and provincial environmental legislation. The certification audits were conducted by KPMG Performance Registrar Inc. and are supplemented by regular follow-up audits to assess on-going compliance with the ISO standards and progress in adaptive management. TimberWest has now been in good standing with this certification program for over six years.

TimberWest has sustainable forest management certification for its forestry operations on private land under the American Forest & Paper Association's Sustainable Forestry Initiative (SFI®) Program. The SFI program is a rigorous system of environmental and conservation practices that includes requirements for wildlife protection, biodiversity conservation, harvesting practices and a wide range of other forest management goals. TimberWest has now been in good standing with this certification program for over five years.

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 2005 and received Board approval.

TimberWest's operations on the Private Timberlands meet the performance standards set out in the *Private Managed Forest Land Act* and regulations. These results-based regulations place 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) are focused on reducing the environmental impact of contaminated sites. 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.

Changes to these environmental laws or regulations, or the implementation of new laws or regulations, could result in additional expenses, capital expenditures, and restrictions and delays in the Company's activities. In addition, if the Company fails to comply with applicable legislation and regulations, its operations could be interrupted and it could be subject to significant liabilities, including fines and other penalties, or be required to take remedial actions, any of which could entail significant expenditure.

## **RISKS AND UNCERTAINTIES**

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### **Risks**

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TimberWest manages principal risks of its business through established systems and procedures in two main areas: business operations, including both forest resources and facilities, and currency. The Company's principal risks can also be viewed in terms of controllable risks and non-controllable risks. Controllable risks relate primarily to the resources and assets of TimberWest and compliance with regulatory and ethical standards. Non-controllable risks result primarily from variations in product prices due to changes in market conditions, fluctuations in foreign currency exchange rates and legislative, regulatory, harvesting fee and trade policy changes made by different levels of government.

#### ***Business Operations Risk***

Revenues, net income and cash flow from TimberWest's operations are dependent on the Company's continued ability to harvest timber at adequate levels. The Company's ability to harvest timber from its timberlands in order to fund distributions to unitholders may be limited by weather conditions, timber growth cycles, market pricing, sustainable forestry standards and regulatory requirements. There can be no assurance that the Company will achieve harvest levels in the future necessary to maintain or increase revenues, net earnings and cash flows.

#### ***Forest Resource Risk***

TimberWest's private timberlands and Crown timber tenures are subject to the risks associated with standing forests. Forest fires, insect infestation and disease pose the primary risks. Fire protection is provided through ground-based suppression crews and an aerial attack capability provided primarily by TimberWest's Martin Mars water bombers. In 2005, to further minimize the risk of fire on its own and neighbouring lands, the Company entered into a cooperative fire control agreement with the British Columbia Ministry of Forests and Range for additional fire prevention, detection, control and extinguishment services.

Over the last several decades, losses on the Company's private timberlands and Crown timber tenures due to fire, insect infestation and disease have been negligible. As is typical in the forest products industry, the Company does not maintain insurance coverage with respect to damage to the standing timber on its private timberlands.

#### ***End-market Risk***

The results of TimberWest's operations are, and will continue to be, affected by the cyclical nature of the forest products industry. Prices and demand for logs and manufactured wood products have been, and in the future can

be expected to be, subject to cyclical fluctuations. The demand for logs and wood products is primarily affected by the level of new residential construction activity and, to a lesser extent, repair and remodelling activity and other industrial uses, which are subject to fluctuations due to changes in economic conditions, interest rates, population growth, weather conditions and other factors. Decreases in the level of residential construction activity and the emergence of non-wood, substitute products generally reduce demand for logs and wood products, resulting in lower revenues, net earnings and cash flows.

The Company's business includes the sale of logs from its private timberlands for export, which is substantially dependent on market and economic conditions in Japan, other parts of Asia and the US west coast regions. Log export revenues may be affected by, among other things, log supply in competing regions, fluctuations in exchange rates, the availability of substitute products, the level of housing starts, changes in building practices, the effect of existing federal legislation that constrains log exports from private timberlands only in British Columbia, and provincial log export policies. Historically, export grade logs have been sold at a premium over the prices that would have been received if the logs had been sold in the domestic market. British Columbia provincial legislation constrains the export of logs originating from Crown timber tenures and certain private timberland, although Crown log export levels increased in 2005 (see further discussion of this issue under "Uncertainties – Market Access" in this annual information form).

An ancillary part of the Company's business is the sale of pulp logs. Prices for these logs is dependent on supply/demand balances for pulp fibre on the BC coast, which are in turn affected by market and economic conditions.

#### *Regulatory Risk*

Legislation in British Columbia enables the development of regulations and policies and empowers government agencies to maintain all aspects of sustainable forest management. The *Forest Practices Code of British Columbia Act* (Forest Practices Code), which was implemented on June 15, 1995, set comprehensive standards for forest practices on Crown timber tenures and private timberlands within TFLs, established planning procedures and introduced a range of activity-specific penalties for non-performance. In March 2003, the government of British Columbia introduced the Forestry Revitalization Plan which provided for significant changes both to Crown forest policy, including the Forest Practices Code, and to the existing allocation of Crown timber tenures to licensees.

Since introducing its Forestry Revitalization Plan, the government has focused on initiatives to trim bureaucracy, provide increased operating flexibility and reduce costs incurred by Crown tenure holders, while preserving environmental values. The government has introduced changes to the Forest Practices Code, stumpage, cut control, appurtenancy and tenure transfers. In addition, the government has introduced the *Forest and Range Practices Act* – a results-based forest practices code. The *Forest and Range Practices Act* will over time replace the Forest Practices Code.

As part of the Forestry Revitalization Plan, the government also proclaimed legislation which authorized a reallocation of timber harvesting rights from Crown timber tenures. In March 2005, orders-in-council were made under the *Forestry Revitalization Act* to remove specific areas from TFL 47 sufficiently large enough to support a reduction of 33,207 m<sup>3</sup> and to delete 2,252 hectares from the Timber Licences held by the Company outside of this TFL. TimberWest was compensated for this removal in March 2005. This reduction in provincial harvesting rights is not expected to have a material effect on TimberWest.

The *Private Managed Forest Land Act* and regulations came into effect on November 6, 2003, replacing the *Forest Land Reserve Act* and the Private Land Forest Practices Regulation that, since their introduction in April 2000, had regulated managed forest land. These regulations apply to lands within the forest land reserve, including TimberWest's private lands classified as Managed Forests, and effectively cover most of TimberWest's private lands. In addition to reforestation standards, these regulations set out standards for the protection of key public environmental values including water quality, fish habitat, soil conservation and critical wildlife habitat.

On July 22, 2004, the provincial government announced regulations made under the *Private Managed Forest Land Act*. These regulations define the government's role relative to Managed Forests, as well as the role and operation of the new Private Managed Forest Land Council. The council is an administrative model based on a public/private agency model that has multiple roles, including responsibility for forest practices regulations, administration of the Managed Forest land base, inquiry management, forest practices audits and reporting to government and landowners. These regulations were enacted August 3, 2004.

TimberWest focuses on providing its employees with the knowledge and skills they require in order to carry out their daily tasks in full compliance with the Forest Practices Code, the *Forest and Range Practices Act*, the *Private Managed Forest Land Act* and other applicable regulations. TimberWest's employees administer agreements with contractors to ensure that they have systems in place to protect the Company's lands and meet regulatory requirements, as well as any other specified commitment made by the Company.

TimberWest is also subject to numerous and increasingly stringent environmental laws and regulations of general application relating to air emissions, effluent discharges, ground water quality, plant and wildlife protection, employee health and safety and waste management. Changes to these laws or regulations, or the implementation of new laws or regulations, could result in additional expenses, capital expenditures and restrictions and delays in the Company's activities. In addition, if the Company fails to comply with applicable legislation and regulations, its operations could be interrupted and it could be subject to significant liabilities, including fines and other penalties, or be required to take remedial actions, any of which could entail significant expenditure.

TimberWest employs an environmental management system to ensure the Company's operations are in compliance with these regulations. Additional information on this system is provided under "Business of TimberWest – Environmental Matters" in this annual information form.

### ***Currency Risk***

TimberWest sells a substantial volume of products outside of Canada (59% of gross sales in 2005), mostly in US dollars. As such, the relative strength of the Canadian dollar versus its US counterpart has an effect on the Company's sales and earnings. The relative strength of the yen and the euro also affect the Company's competitiveness in the markets in which it sells its products.

## **Uncertainties**

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### ***Cyclical Nature of the Business***

The results of TimberWest's operations are, and will continue to be, affected by the cyclical nature of the forest products industry. Prices and demand for logs and manufactured wood products have been, and in the future can be expected to be, subject to cyclical fluctuations. The demand for logs and wood products is primarily affected by the level of new residential construction activity and, to a lesser extent, repair and remodelling activity and other industrial uses, which are subject to fluctuations due to changes in economic conditions, interest rates, population growth, weather conditions and other factors. Decreases in the level of residential construction activity generally reduce demand for logs and wood products, resulting in lower revenues, net income and cash flows.

### ***Business Transformation Initiative***

A key component of TimberWest's business plan and Operations Excellence strategy is the pursuit of cost reduction initiatives. A key element implemented by the Company effective 2005 was the transformation of its business model through a restructuring of the Company's log harvesting operations and a move to contract out all log harvesting and road building activities. The Company believes the move to a contractor model may generate cost savings for the Company on an ongoing basis. Over time, the financial success of this initiative will be affected by market forces.

### **Forest Resources**

The mix of timber harvested by TimberWest changes each year. With continued harvesting, over time there is less mature timber remaining in the forest inventory, which has traditionally been the Company's higher-value fibre. This is offset by an increase in smaller diameter, mostly second-growth timber. While this shift in forest resource mix has placed downward pressure on average log sales realizations, timber harvesting costs have also declined over time as there is increased mechanization with second-growth harvesting. Historically, TimberWest has successfully offset the effects of a smaller diameter end-use sort mix with lower costs and market diversification. As well, as customers adapt to the changing mix coming out of the forest, demand has improved for the smaller diameter product and pricing has reflected this improved demand.

### ***Market Access***

The export of private land logs out of BC is restricted by the federal government's surplus test, Notice 102. This test requires that private forest landowners offer their logs for sale first in BC at domestic prices, which are typically lower than export prices, and only if there is no buyer in BC can a private forest landowner then sell

logs outside of the country. This restriction applies only to BC landowners. Private forest landowners in all other provinces, and in the US, are free to sell their logs to any customer they choose.

During 2005, TimberWest sold 1.6 million m<sup>3</sup> of logs into markets in Asia and the US West Coast at an average sales price premium of \$25 per m<sup>3</sup> over what would be realized in the domestic market. The premium earned by selling private land logs into the export market represents more than half the distributable cash generated by the Company's timberland operations. The ability to export private land logs has also played a key role in keeping employees working. Selling logs at higher international prices allows owners of private land to harvest stands that would otherwise be uneconomic.

Forcing private forest landowners to sell logs to domestic sawmills at prices lower than international prices transfers the value from the tree grower to the processors, impairs the value of private timberlands in coastal BC and reduces pricing of Crown logs sold on the coast of BC.

The Company is hopeful that this matter will be resolved as part of an eventual agreement between the US and Canada on the softwood lumber issue. In 2001, TimberWest filed a statement of claim in the Federal Court of Canada challenging the validity of the private land log export restrictions that apply only to British Columbia, seeking a declaration that the provisions are of no force and effect. The Company is continuing with its legal action and anticipates the issue will go to trial in the Federal Court in May 2006. There can be no assurance that the Company will succeed in this challenge. If the Company does not succeed, the restrictions imposed on the Company's ability to export logs will continue to adversely affect the Company's business.

### ***Fibre Supply Agreements***

TimberWest has entered into several fibre supply agreements with Catalyst. These arrangements make sawlogs available to Catalyst and also provide Catalyst with a supply of wood fibre. These are long-term contracts that specify the volumes to be supplied at prevailing domestic market prices. In addition, Catalyst pays various fees to TimberWest for services provided under the agreements. The agreements are all indefinite agreements subject to termination by Catalyst only, with 12 or 24 months' notice depending on the agreement. Were any of these agreements terminated, depending on the market conditions at the time, there could be a positive or a negative effect on TimberWest's revenues, net earnings and cash flows.

### ***Labour Relations***

TimberWest employs a small unionized workforce in its timberland operations, while contracting out the bulk of harvesting activities. TimberWest also employs a unionized workforce in its lumber manufacturing and shipping operations. Strikes or lockouts at the Company's, its contractors' or its customers' operations could restrict the TimberWest's ability to carry on its business and could materially adversely affect the Company's financial conditions and results of operations. Additional information on labour relations can be found under "Business of TimberWest – Human Resources" in this annual information form.

### ***Aboriginal Land Claims***

TimberWest cannot predict whether aboriginal land claims or other rights in British Columbia will affect its existing Crown timber tenures. With respect to the Company's private timberlands, aboriginal rights cannot adversely affect the tenure of fee simple land and the Company's rights that attach to them.

Canadian courts have recognized that aboriginal peoples may possess 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 Canadian 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 land in the province over which they claim aboriginal title 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.

Canadian governments have a duty to consult with and possibly accommodate aboriginal groups where their rights may be affected.

### *Softwood Lumber Dispute*

On May 22, 2002, the US Department of Commerce (DOC) imposed countervailing duties (CVD) of 18.8% against Canadian softwood lumber exports to the US. Also on May 22, 2002, the DOC imposed anti-dumping duties (ADD), which for TimberWest were set at 8.4%.

These US trade measures have affected the Company's domestic log customers and will continue to have an effect on softwood lumber producers in BC, including the Company's ability to export softwood lumber from the Elk Falls Lumbermill to the US.

The Canadian federal and provincial governments have launched challenges of these tariffs under the North American Free Trade Agreement (NAFTA) and with the World Trade Organization (WTO).

The year 2005 was one of steady technical improvement for Canadian interests in the softwood lumber file. In early June 2005, the DOC announced preliminary results for its second administrative review. Under this review, the CVD rate dropped to 8.18%, and the AD rate fell to 2.44%.

In early August 2005, an Extraordinary Challenge Committee supported an earlier NAFTA panel ruling that the US had not proven a threat to US lumber producers from Canadian lumber imports, the claim that underpinned the entire US case for duties.

In late August 2005, the WTO rejected Canada's challenge to a ruling by the US International Trade Commission that US lumber producers are threatened with injury by imports of softwood lumber from Canada. Canada plans to appeal this ruling before the Court of International Trade.

In September 2005, the US lumber lobby filed a lawsuit challenging the constitutionality of a dispute settlement known as "Chapter 19 dispute mechanism" which ruled in Canada's favor. The challenge could take years to resolve and pits the Coalition for Fair Lumber Imports against the US government as well as the Canadian government.

In October 2005, the NAFTA panel ordered the US DOC to use a new profit margin in calculating the countervailing duty for Quebec, Ontario, Manitoba, and Saskatchewan. The new rate, which was applied in late October 2005, brings the national countervailing duty assessment to less than one percent, which is considered de minimis, effectively canceling the US subsidy issue.

In December 2005, US DOC issued the final results of a second administrative review. In the final results the CVD was reduced to 8.70% and the ADD was reduced to 2.11% for a total deposit rate of 10.81%. TimberWest's combined CVD/ADD rate is 10.80%.

Lumber sales by TimberWest into the US were not significant during 2005. Approximately \$1.5 million of combined CVD and ADD on softwood lumber shipments to the US have been reflected in the Company's financial results as an element of cost of sales for the year ended December 31, 2005. Since the softwood lumber dispute began in 2002, the Company has paid combined CVD and ADD of \$3.8 million. Cash payments for both the CVD and ADD have been made at the assessed rates.

### **OUTLOOK FOR 2006**

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For 2006, TimberWest anticipates housing markets in both the US and Japan to run at levels consistent with those for 2005 through the first part of the year, with a modest reduction in the US housing market expected in the last half of the year but a stable Japanese housing market throughout the year. Demand in other Asian log markets is expected to be stable in the year ahead.

In the US, 2006 has begun with strong demand for logs and strong prices for all of the Company's products. In addition to the robust housing market, there is also a seasonal shortage of logs as a result of weather-related harvesting curtailments in the US Pacific Northwest. The Company expects these conditions to continue, which will support strong demand and pricing levels in the near term. However, the Canadian dollar is expected to remain strong throughout the year, and at this time, the Company's net sales realizations from this market are expected to be comparable with the sales realizations achieved in the second half of 2005.

In the Japanese market, demand for logs is expected to be stable, with the possibility of some improvement in pricing. Even with the weak yen and the strong Canadian dollar, in the near term the Company expects that net sales realizations from this market will be slightly ahead of where they were in the last half of 2005.

The Company is increasingly optimistic about its prospects in other Asian markets in the upcoming year and anticipates shipping more volume to these markets than it has in the past. Sales realizations in non-Japanese Asian markets are superior to those available in the domestic market.

TimberWest expects 2006 to be another weak year in the domestic log market, with the lumber industry on the BC coast continuing to get smaller and restructure. While this is a necessary prelude to the revitalization process on the coast, the effect will be to keep log prices depressed for most end use sorts in 2006.

On the cost side, the Company expects 2006 costs to be comparable to those for 2005 in our timberland business. Production costs are typically lower during the first half of the year as harvesting is generally at lower elevations and consequently uses lower-cost harvest systems. Logging costs for the first half of 2006 are expected to be comparable to those of the first half of 2005.

Despite good export markets and a continued focus on cost containment, the strength of the Canadian dollar – which forecasters suggest will persist throughout 2006 – means that TimberWest is unlikely to generate its distributable cash requirements from timberland and sawmill operations.

However, in 2006 real estate markets on Vancouver Island remain solid and as a result the Company expects to generate sufficient cash flow from real estate sales to make up for the shortfall from timberland operations.

TimberWest expects to generate sufficient distributable cash to meet its distribution requirements for 2006 and to maintain its strong financial condition.

## **LEGAL PROCEEDINGS**

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### ***Notice 102***

TimberWest filed a statement of claim in the Federal Court of Canada July 31, 2001, calling on the federal government to repeal its discriminatory private land log export restriction that imposes, only in BC, a "surplus test" on private forest landowners. The federal government filed a statement of defence in September 2001. The government also filed a motion to strike the statement of claim in October 2001. A Federal Court order dated June 12, 2002, supported TimberWest and the action is proceeding, with examinations for discovery and associated undertakings completed. TimberWest remains hopeful that this issue will be resolved as part of an eventual resolution of the softwood lumber dispute (see further discussion of this issue under "Uncertainties – Softwood Lumber Dispute" in this annual information form). However, if a negotiated settlement is not reached before the scheduled trial date on this matter, then the issue will go to trial in the Federal Court in May 2006.

### ***Other***

The Company is subject to further legal proceedings and claims that 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 on 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.

## **CAPITAL STRUCTURE**

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### **Stapled Units**

TimberWest has a unique equity instrument consisting of one common share, 100 preferred shares and approximately \$8.98 face amount of Series A Subordinate Notes. These components are "stapled" together as a single unit and trade together on the Toronto Stock Exchange as Stapled Units. The securities comprising a Stapled Unit trade together as Stapled Units and cannot be transferred except with each other as part of a Stapled Unit until the date of maturity of the Series A Subordinate Notes or the payment of the principal amount of the Series A Subordinate Notes following an event of default and expiration of a remedies blockage period.

### ***Common Shares***

The Company's common shares have no par value.

### ***Preferred Shares***

The Company's preferred shares have a par value of \$0.024456 per share. The holders of the preferred shares are entitled to the receipt of dividends as may be declared by the Board of Directors from time to time and are not entitled to any voting rights except as may be provided under the *Company Act*. The preferred shares may be redeemed at the option of the Company in whole at any time or in part from time to time at par value.

### ***Series A Subordinate Notes***

Each Series A Subordinate Note has been issued with a face amount of \$8.978806569, entitling the holder to an interest payment per unit of \$1.077456788 per annum (12%).

The Series A Subordinate Notes are unsecured and subordinate to all credit facilities and debentures issued by the Company. The principal amount of the Series A Subordinate Notes plus accrued and unpaid interest thereon are due on August 31, 2038, unless such date is extended by the Company at the time of the issuance of additional Subordinate Notes to a date not later than the earlier of: (i) the date of maturity of such additional Subordinate Notes; and (ii) August 31, 2048, and will be payable by cash or, at the option of the Company, by delivery of common shares to the Subordinate Note Trustee for the benefit of the holders of the Subordinate Notes.

### **Class B Preferred Shares**

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The Company's authorized share capital also includes Class B preferred shares. These preferred shares are without par value and have been designated in series A, B, C and D. The Company has issued Class B preferred shares under series A and D. These shares are held by the Company's subsidiaries and are eliminated upon consolidation.

### **Debentures**

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The Company has \$195.0 million aggregate principal amount of 7% unsecured senior debentures issued and outstanding. These debentures mature on October 1, 2007, are unsubordinated and rank senior in priority to the Series A Subordinate Notes held by unitholders and equally with indebtedness of the Company under its credit facilities.

### **Credit Ratings**

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Credit ratings for the Company have been established by Standard and Poor's at BB+ and by Dominion Bond Rating Service at BBB (high) as at December 31, 2005. These ratings did not change during 2005. The Company believes that the strength of its balance sheet and its cash flows from operations will be sufficient to maintain these credit ratings.

Standard and Poor's rates debt instruments by rating category from a high of AAA to a low of D, with a "+" or "-" indicating relative strength within the rating category. Dominion Bond Rating Service rates debt instruments by rating category from a high of AAA to a low of D, with a "high" or "low" indicating relative strength within the rating category. Prospective purchasers of the Company's Debentures should consult directly with the rating agencies with respect to the interpretation of the foregoing ratings and the implication of those ratings. The credit ratings accorded to the Debentures are not recommendations to buy, sell or hold the Debentures and may be subject to revision or withdrawal at any time by Standard and Poor's or Dominion Bond Rating Service.

### **DISTRIBUTIONS ON SERIES A SUBORDINATE NOTES**

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TimberWest's policy is to make quarterly distributions to its unitholders in the form of interest on the Series A Subordinate Note component of the Company's Stapled Units held by unitholders. 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 (Record Date) and are expected to be paid on the fifteenth day of the month of each Record Date. The Company may also make distributions as a return of capital upon the redemption of the preferred shares, or as dividends on the common shares or preferred shares. The amounts of such distributions are subject to TimberWest's overall financial condition.

The following table presents distributions announced and paid to unitholders in each of the three most recently completed fiscal years. These payments were comprised entirely of interest earned on Series A Subordinate Notes.

|   | 2005    | 2004    | 2003    |
|---|---------|---------|---------|
| Total distributions announced <i>(in millions of dollars)</i> | \$ 83.3 | \$ 82.5 | \$ 82.1 |
| Total distributions paid <i>(in millions of dollars)</i>      | \$ 83.1 | \$ 82.3 | \$ 82.1 |
| Per unit distributions announced and paid <i>(in dollars)</i> | \$ 1.08 | \$ 1.08 | \$ 1.08 |

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 cash distributions may vary from the actual cash generated during certain periods. Any difference will be added to or subtracted from either cash reserves or available credit facilities.

## MARKET FOR SECURITIES

The Stapled Units are listed for trading on The Toronto Stock Exchange ("TSX") under the symbol "TWF.UN". The following table sets forth monthly trading price ranges and trading volumes of TimberWest's Stapled Unit for 2005:

|                | High    | Low     | Close   | Volume    |
|----------------|---------|---------|---------|-----------|
| January 2005   | \$16.15 | \$14.40 | \$16.14 | 3,258,154 |
| February 2005  | \$16.15 | \$15.31 | \$15.50 | 2,909,574 |
| March 2005     | \$16.01 | \$14.53 | \$14.78 | 2,811,993 |
| April 2005     | \$15.40 | \$14.11 | \$14.15 | 1,481,100 |
| May 2005       | \$14.98 | \$13.75 | \$14.41 | 3,119,886 |
| June 2005      | \$15.35 | \$14.25 | \$14.73 | 1,418,487 |
| July 2005      | \$16.25 | \$14.35 | \$16.09 | 4,199,358 |
| August 2005    | \$16.10 | \$14.15 | \$14.43 | 2,947,593 |
| September 2005 | \$15.69 | \$14.35 | \$15.11 | 2,147,618 |
| October 2005   | \$15.35 | \$12.10 | \$13.44 | 3,734,700 |
| November 2005  | \$16.00 | \$13.00 | \$15.17 | 4,718,399 |
| December 2005  | \$15.90 | \$14.75 | \$15.40 | 5,868,165 |

## DIRECTORS AND EXECUTIVE OFFICERS

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

### Directors

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| <b>Name and Municipality of Residence</b>   | <b>Principal Occupation</b>  | <b>Director Since</b> |
|---|--|-----------------------|
| Clark S. Binkley <sup>(2)(4)</sup><br>Cambridge,<br>Massachusetts, USA                    | Managing Director, International Forestry Investment Advisors, LLC;<br>Corporate Director        | April 28, 2005        |
| William C. Brown <sup>(2)(3)</sup><br>Bowen Island,<br>British Columbia, Canada           | Corporate Director   | June 23, 1997         |
| V. Edward Daughney <sup>(1)(3)(4)</sup><br>Vancouver,<br>British Columbia, Canada         | Principal and Chairman, Echelon Home Products Ltd. (appliance wholesaler);<br>Corporate Director | June 23, 1997         |
| Paul J. McElligott<br>North Vancouver,<br>British Columbia, Canada                        | President and Chief Executive Officer of the Company.  | June 23, 1997         |
| Robert W. Murdoch <sup>(2)(3)(5)</sup><br>Salt Spring Island,<br>British Columbia, Canada | Corporate Director   | September 1, 2001     |
| Conrad Pinette <sup>(2)(4)</sup><br>Vancouver,<br>British Columbia, Canada                | Corporate Director   | May 3, 2002           |
| Kenneth A. Shields <sup>(3)(5)</sup><br>Vancouver,<br>British Columbia, Canada            | Chairman, Raymond James Ltd. (investment dealer);<br>Corporate Director                          | March 3, 1997         |

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(1) Chairman of the Board of Directors.

(2) Member of the Audit Committee.

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

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

(5) Member of the Pension Committee.

The term of office of each Director expires on the date of the next Annual Meeting of the Company scheduled to be held on April 27, 2006.

During the past five years, the directors of the Company have been engaged in the same or similar occupations with the organization indicated or a predecessor thereof, except that prior to January 2001, Mr. McElligott was President and Chief Executive Officer of the BC Rail Group of Companies, prior to April 2005, Dr. Binkley was Managing Director and Chief Investment Officer of the Hancock Timber Resources Group, and prior to January 2006, Mr. Pinette was Executive Vice-President of Tolko Industries Ltd. (2005), Executive Vice-President of Riverside Forest Products Ltd. (2004), and President and Chief Operating Officer of Lignum Limited (1990-2004).

## Executive Officers

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| <b>Name and Municipality of Residence</b>                          | <b>Position</b>  | <b>Principal Occupation</b>   |
|--|--|---|
| John A. Kelvin<br>North Vancouver,<br>British Columbia, Canada     | Vice-President, Log<br>Marketing and Sales                 | Officer of the Company; prior to May 2001,<br>Manager, Log Marketing and Sales of the<br>Company.                                 |
| Hamish Kerr<br>West Vancouver,<br>British Columbia, Canada         | Vice-President, Strategic<br>Planning and Forest<br>Policy | Officer of the Company; prior to June 2002,<br>independent consultant; prior to May 2000,<br>Vice-President, Goepel McDermid Inc. |
| Paul J. McElligott<br>North Vancouver,<br>British Columbia, Canada | President and Chief<br>Executive Officer                   | Officer of the Company; prior to January 2001,<br>President and Chief Executive Officer, BC Rail<br>Group of Companies.           |
| Beverlee F. Park<br>West Vancouver,<br>British Columbia, Canada    | Vice-President, Finance<br>and Chief Financial<br>Officer  | Officer of the Company; prior to February<br>2000, Controller and Secretary of the<br>Company.                                    |
| Gerry G. Young<br>Courtenay,<br>British Columbia, Canada           | Vice-President,<br>Timberland Operations                   | Officer of the Company; prior to June 2005,<br>Assistant Vice-President, Timberland<br>Operations 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.

## AUDIT COMMITTEE

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The Company has an Audit Committee which currently consists of Messrs. Clark S. Binkley, William C. Brown, Robert W. Murdoch and Conrad A. Pinette. All members of the Audit Committee are considered “independent” and “financially literate” within the meaning of Multilateral Instrument 52-110 – Audit Committee.

### Audit Committee Charter

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The primary function of the Audit Committee (“Committee”) is to assist the Board in fulfilling its oversight responsibilities by reviewing:

- the financial information that will be provided to the unitholders and others;
- the systems of internal controls management and the Board have established; and
- all audit processes.

Primary responsibility for financial reporting, information systems, risk management and internal controls of TimberWest is vested in management and is overseen by the Board.

The mandate of the Committee is attached hereto as “Appendix”.

## Composition of the Audit Committee

| Name   | Financial Knowledge  | Education and Experience  |
|--|----------------------|---|
| Clark S. Binkley                             | Financially literate | Dr. Binkley currently serves as Managing Director of International Forestry Investment Advisors, LLC, a firm providing timberland investment advisory services to sophisticated investors. Prior to holding this position, he served as Managing Director and Chief Investment Officer of the Hancock Timber Resources Group (HTRG), a timberland investment company, and prior to that as Dean of the Faculty of Forestry at the University of British Columbia. Dr. Binkley currently serves as a director of West Fraser Timber Co. Ltd. and Cellfor Ltd. He holds a Ph. D. (Forest Economics) from Yale University, as well as Master of Science (Engineering) and Bachelor of Arts (Applied Mathematics) degrees from Harvard University. While at HTRG, he held a National Association of Securities Dealers Series 7 securities license. |
| William C. Brown<br>Audit Committee<br>Chair | Financially literate | Mr. Brown served as President and Chief Executive Officer and subsequently as Chairman of BC Sugar Refinery Ltd. He has served as Chair of the Audit Committee of the Company since 1997. He is also on the board of a number of public companies and currently serves on the audit committees of Union Gas Ltd., Westcoast Energy Inc. and Boston Pizza Royalties Income Fund. Mr. Brown holds a Bachelor of Science degree from the University of New Brunswick.  |
| Robert W. Murdoch                            | Financially literate | Mr. Murdoch served as President and Chief Executive Officer of Lafarge Corporation. He currently serves on the boards of Lafarge North America, Sierra Systems Group Inc., Lallmand Inc. and Ritchie Brothers Auctioneers Inc., and on the International Advisory Board of Lafarge, SA. Mr. Murdoch holds a Bachelor of Law degree from the University of Toronto.  |
| Conrad A. Pinette                            | Financially literate | Mr. Pinette served as Executive Vice-President of Tolko Industries Ltd. (2005), Executive Vice-President of Riverside Forest Products Ltd. (2004) and President and Chief Operating Officer of Lignum Limited (1990-2004) and as past Chief Executive Officer of several subsidiaries of Fletcher Challenge Canada Ltd. Mr. Pinette is a director of three other public companies, he is a director and Chairman of Finning International Inc., a director of A&W Revenue Royalties Income Fund and a director of Northgate Minerals Corporation.   |

## Pre-approval Policies and Procedures

The Audit Committee pre-approves audit and non-audit related services anticipated to be provided by the Company's external auditors during the year. Upon pre-approval, management may engage the auditors for these services. The Audit Committee Chair has been delegated the authority to approve services not on the pre-approved list of services. The Audit Committee Chair then reports on these at the next Audit Committee meeting.

## **EXTERNAL AUDITORS**

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KPMG LLP, at its office in Vancouver, is the Company's independent external auditor. KPMG LLP is independent in accordance with the rules of professional conduct for auditors in British Columbia.

The following table provides a summary of fees paid to KPMG LLP for the periods indicated:

| Services           | 2005      | 2004      |
|--------------------|-----------|-----------|
| Audit fees         | \$220,330 | \$195,150 |
| Audit-related fees | 9,500     | 11,000    |
| Tax related fees   | Nil       | Nil       |
| All other fees     | 83,912    | 76,000    |
|                    | \$313,742 | \$282,150 |

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For 2005, audit fees were comprised of audit and limited procedures on unaudited interim financial statements and other accounting/disclosure services, and audit-related fees were comprised of audit services provided in connection with the Company's retirement pension plan for salaried employees, and all other fees were comprised of services related to ISO 14001 certification and Sustainable Forestry Initiative (SFI®) certification.

For 2004, audit fees were comprised of audit and limited procedures on unaudited interim financial statements and other accounting/disclosure services, and audit-related fees were comprised of audit services provided in connection with the Company's retirement pension plan for salaried employees, and all other fees were comprised of services related to ISO 14001 certification and Sustainable Forestry Initiative (SFI®) certification.

The Audit Committee has considered whether the provision of services other than audit services is compatible with maintaining auditor independence and concluded that KPMG LLP is indeed independent.

## **TRANSFER AGENT AND REGISTRAR**

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Computershare Investor Services Inc., at its principal offices in Vancouver and Toronto, is the transfer agent and registrar for the Company's Stapled Units.

## **ADDITIONAL INFORMATION**

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Additional information relating to TimberWest can be found on the System for Electronic Document Analysis and Retrieval (SEDAR) at <http://www.sedar.com>.

### **Executive Compensation and Other Information**

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Additional information, including directors' and officers' remuneration and indebtedness, principal holders of the Company's Stapled Units, options to purchase Stapled Units, and corporate governance, is contained in the Information Circular dated February 28, 2006, for the Company's Annual General Meeting to be held on April 27, 2006.

### **Financial Information**

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Additional financial information is provided in the Company's management's discussion and analysis and annual consolidated financial statements for the year ended December 31, 2005, and the auditor's report thereon, which are included in the Company's 2005 Annual Report.

## **FORWARD LOOKING STATEMENTS**

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The statements which are not historical facts contained in this Annual Information Form 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, harvesting fee and trade policy changes and other actions by governmental authorities, the ability to implement business strategies and pursue business opportunities, labour relations, weather conditions, forest fires, insect infestation, disease and other natural phenomena and other risks and uncertainties.

## GLOSSARY

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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.;

“**Catalyst**” means Catalyst Paper Corporation, formerly Norske Skog Canada Limited, formerly Fletcher Challenge Canada Limited;

“**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) (which has been replaced by the *British Columbia Business Corporations Act*);

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

“**Debentures**” means the Company’s \$195.0 million aggregate principal amount of debentures outstanding that bear interest at 7% per annum, mature on October 1, 2007, are unsecured and unsubordinated, and rank senior in priority to the Company’s Subordinate Notes held by unitholders and equally with indebtedness of the Company under its credit facilities;

“**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, 2004, is \$82.5 million, which is paid from distributable cash and any deficiency could be paid from the available bank facilities;

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

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

“**Forest Development Plan**” means an operational plan guided by the principles of integrated resource management (the consideration of timber and non timber values), which details the logistics of timber development over a period of usually five years. Methods, schedules, and responsibilities for accessing, harvesting, renewing, and protecting the resource are set out to enable site-specific operations to proceed;

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

“**Forestry Revitalization Act**” means the *Forestry Revitalization Act* (British Columbia);

“**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 Harvest**” 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 harvest is based on a 50-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;

“**m<sup>3</sup>**” 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 that can be commercially recovered at the present time;

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

“**mm<sup>3</sup>**” 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;

“**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 Managed Forest Land Act and regulations**” means the *Private Managed Forest Land Act* (British Columbia) and regulations enacted in November 2003 to replace the *Forest Land Reserve Act* (British Columbia) and the regulation thereunder, namely the Private Land Forest Practices Regulation. This act applies to privately owned land that is classified as managed forest land under the *Assessment Act* (British Columbia). The act and any bylaws associated with it are administered by the Private Managed Forest Land Council, 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 consist of approximately 6,200 hectares at any one time, and are identified as the Company determines them to be surplus to its harvesting requirements;

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

“**Subordinate Notes**” means the Series A Subordinate Notes of the Company held by unitholders, 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 Series A Subordinate Notes, each of which represents a unit of Series A 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®) 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 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 clear-cutting.

**“Western”** means Western Forest Products Ltd., a Duncan, BC lumber producer, formerly known as Doman Industries Limited.

## **APPENDIX – TERMS OF REFERENCE FOR THE AUDIT COMMITTEE**

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### **I. PURPOSE**

- A. The primary function of the Audit Committee (the “Committee”) is to assist the Board in fulfilling its oversight responsibilities by reviewing:
  - i) the financial information that will be provided to the unitholders and others;
  - ii) the systems of internal controls management and the Board have established; and
  - iii) all audit processes.
- B. Primary responsibility for financial reporting, information systems, risk management and internal controls of TimberWest is vested in management and is overseen by the Board.

### **II. COMPOSITION AND OPERATIONS**

- A. The Committee shall be composed of not fewer than three directors and not more than five directors, all of whom shall be independent directors.
- B. Each Committee member shall be financially literate<sup>1</sup>, or shall become financially literate in a reasonable amount of time following appointment to the Committee.
- C. TimberWest’s auditors shall be advised of the names of the committee members and will receive notice of and be invited to attend meetings of the Committee, and to be heard at those meetings on matters relating to the auditor's duties.
- D. The Committee shall meet with the external auditors as it deems appropriate to consider any matter that the Committee or auditors determine should be brought to the attention of the Committee, Board or unitholders.
- E. The Committee shall meet at least four times each year.
- F. The Committee has access to TimberWest’s senior management and documents as required to fulfill its responsibilities and is provided with the resources necessary to carry out its responsibilities.
- G. The Committee provides open avenues of communication among management, employees, external and internal auditors and the Board of Directors.
- H. The secretary to the Committee shall be either the Corporate Secretary or his/her delegate.
- I. The Committee shall follow the general guidelines for all committees included in the Board Governance Manual.

### **III. DUTIES AND RESPONSIBILITIES**

Subject to the powers and duties of the Board, the Committee will perform the following duties:

#### **A. Financial Statements and Other Financial Information**

The Committee will review and recommend for approval to the Board financial information that will be made publicly available. This includes:

- i) review and recommend approval of TimberWest’s annual financial statements and MD&A and report to the Board before the statements are approved by the Board;
- ii) review and approve for release TimberWest’s quarterly financial statements, MD&A and press release;
- iii) review and recommend to the Board for approval, the financial content of the annual report and

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<sup>1</sup> Ability to read and understand a set of financial statements that present a breadth and level of complexity of accounting issues that are generally comparable to the breadth and complexity of issues that can reasonably be expected to be raised by the Company’s financial statements. (Source: OSC Multi-Lateral Instrument 52-110 – Audit Committees)

- any reports required by government or regulatory authorities;
- iv) review the Annual Information Form and any Prospectus/Private Placement Memorandums;
  - v) ensure procedures are in place for reviewing the Company's public disclosure of financial information extracted or derived from financial statements and periodically assess the adequacy of those procedures; and
  - vi) review any management report that accompanies published financial statements (to the extent such a report discusses the financial position or operating results) for consistency of disclosure with the financial statements themselves.
- vii) Review and discuss:
- a) Accounting policies and practices used by TimberWest;
  - b) any significant proposed changes in financial reporting and accounting policies and practices to be adopted by TimberWest;
  - c) any new or pending developments in accounting and reporting standards that may affect TimberWest; and
  - d) management's key estimates and judgments that may be material to financial reporting.

#### **B. Risk Management, Internal Control and Information Systems**

The Committee will review and obtain reasonable assurance that the risk management, internal control and information systems are operating effectively to produce accurate, appropriate and timely management and financial information. This includes:

- i) review the Corporation's risk management assessment, controls and policies;
- ii) obtain reasonable assurance that the information systems are reliable and the systems of internal controls are properly designed and effectively implemented through discussions with and reports from management, the internal auditor and the external auditor;
- iii) review management steps to implement and maintain appropriate internal control procedures including a review of policies;
- iv) review adequacy of security of information, information systems and recovery plans;
- v) monitor compliance with statutory and regulatory obligations;
- vi) review the appointment of the Chief Financial Officer; and
- vii) review the adequacy of accounting and finance resources.

#### **C. Internal Audit**

The Committee will oversee TimberWest's internal audit function and the internal audit relationship with the auditor and with management. This includes:

- i) authority to communicate directly with the internal auditor;
- ii) review the organization and independence of the internal auditor;
- iii) review goals, resources and work plans;
- iv) review any restrictions or problems;
- v) review recommendations and significant responses;
- vi) meet periodically and at least annually, with the internal auditor without management present; and
- vii) review proposed changes in the Internal Audit Leadership.

#### **D. External Audit**

The Committee will review the planning and results of external audit activities and the ongoing relationship with the external auditor. This includes:

- i) review and recommend to the Board, for unitholder approval, engagement of the external auditor;

- ii) discuss with management and the external auditor the quality and acceptability of Canadian generally accepted accounting principles as they apply to the Company's financial statements;
- iii) review the annual external audit plan, including but not limited to the following:
  - a) engagement letter
  - b) objectives and scope of the external audit work;
  - c) procedures for review of quarterly financial statements;
  - d) materiality limit;
  - e) areas of audit risk;
  - f) staffing;
  - g) timetable; and
  - h) proposed fees.
- iv) meet with the external auditor to discuss the Corporation's annual financial statements and the auditor's report including the appropriateness of accounting policies and underlying estimates;
- v) maintain direct responsibility for overseeing the work of the external auditor and review or attest services for the Company, including the resolution of disagreements between management and the external auditor regarding financial reporting.
- vi) review and advise the Board with respect to the planning, conduct and reporting of the annual audit, including but not limited to:
  - a) any difficulties encountered, or restriction imposed by management, during the annual audit;
  - b) any significant accounting or financial reporting issue;
  - c) the auditors' evaluation of TimberWest's system of internal controls, procedures and documentation;
  - d) the post audit or management letter containing any findings or recommendation of the external auditor, including management's response thereto and the subsequent follow-up to any identified internal control weaknesses;
  - e) any other matters the external auditor brings to the Committee's attention; and
  - f) assess the performance and consider the annual appointment of external auditors for recommendation to the Board.
- vii) review the external auditor's report on all material subsidiaries;
- viii) review and receive assurances on the independence of the external auditor;
- ix) review and pre-approve, using regulatory standards, all non-audit services to be provided by the external auditor's firm or its affiliates (including estimated fees), and consider the impact on the independence of the external audit; and
- x) authority to communicate directly with the external auditor, including meet periodically, and at least annually, with the external auditor without management present.

#### **E. Compliance and Disclosure**

The Committee shall:

- i) assist with Board oversight of the Company's compliance with legal and regulatory requirements;
- ii) discuss the Company's compliance with tax laws, legal withholdings requirements, environmental protection laws, privacy laws, and any other area of compliance monitoring that the Committee considers appropriate;
- iii) review the process for the certification of the interim and annual financial statements by the CEO and Chief Financial Officer ("CFO"), and the certifications made by the CEO and CFO;

- iv) Ensure that the external auditor's fees are disclosed by category in the Annual Information Form in compliance with regulatory requirements;
- v) Disclose any specific policies or procedures the Company has adopted for pre-approving non-audit services by the external auditor including affirmation that they meet regulatory requirements;
- vi) with regard to the Code of Ethics for Senior Executive and Financial Officers:
  - a) consider any amendments to this Code in conjunction with the Board; and
  - b) consider any request for a waiver to this Code in conjunction with the Board and if such waiver is approved, ensure it is disclosed promptly to meet regulatory requirements.
- vii) Assist the Governance and Human Resources Committee with preparing the Company's governance disclosure by ensuring it has current and accurate information on:
  - a) the independence of each Committee member relative to regulatory requirements for audit committees;
  - b) the state of financial literacy of each Committee member, including the name of any member(s) currently in the process of acquiring financial literacy and when they are expected to attain this status; and
  - c) the education and experience of each Committee member relevant to his or her responsibilities as Committee member.
- viii) Disclose if the Company has relied upon any exemptions to the requirements for Audit Committees under regulatory requirements.

**F. OTHER**

- i) review insurance coverage of significant business risks and uncertainties;
- ii) review material litigation and its impact on financial reporting;
- iii) review policies and procedures for the review and approval of officers' expenses and perquisites; and
- iv) review and approve the Company's hiring policies regarding partners, employees and former partners and employees of the present and former external auditor;
- v) establish procedures for:
  - a) the receipt, retention and treatment of complaints received by the Company regarding accounting, internal accounting controls, or auditing matters; and
  - b) the confidential, anonymous submission by employees of concerns regarding questionable accounting or auditing matters.
- vi) review the terms of reference for the Committee annually and make recommendations to the Board as required.

**IV. ACCOUNTABILITY**

The Committee shall report its discussions to the Board by distributing the minutes of its meetings and where appropriate, by oral report at the next Board meeting.