



TIMBERWEST FOREST CORP.

ANNUAL INFORMATION FORM

(for the period January 1, 2006 to December 31, 2006)

March 6, 2007

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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 TimberWest Holdings Ltd. and Pacific Forest Products Limited (“Pacific”) 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The Company was incorporated under the *Company Act* (British Columbia) (which has been replaced by the *British Columbia Business Corporations Act*) on January 31, 1997, under the name 535950 British Columbia Ltd.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.

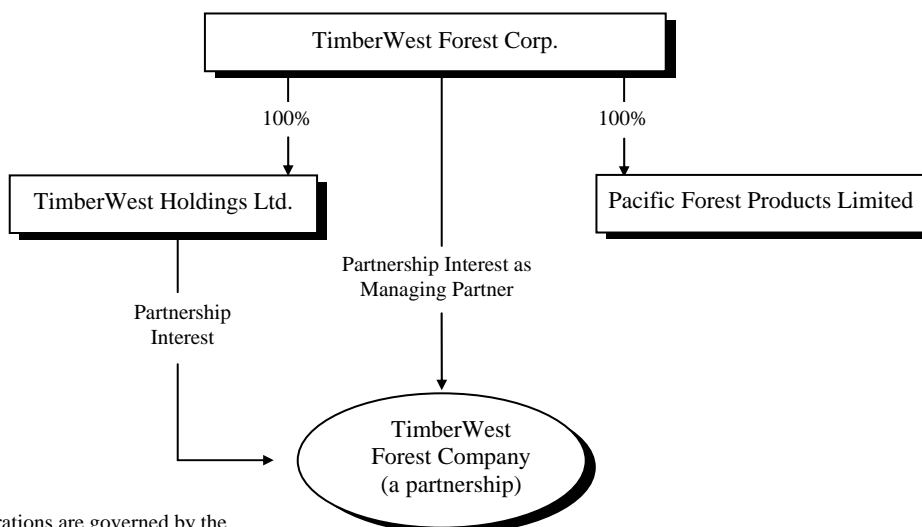
A predecessor of Pacific was incorporated under the *Company Act* on November 12, 1992, under the name No. 250 Taurus Ventures Ltd. and changed its name to Pacific Forest Products Limited on June 3, 1993. Pacific was amalgamated pursuant to an arrangement under the *Company Act* on December 10, 1997.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

During 2006, the Company implemented an internal capital reorganization with respect to the availability of non-capital losses. TimberWest Holdings Ltd. was incorporated under the *British Columbia Business Corporations Act* on November 27, 2006 under the name 0775648 B.C. Ltd. and changed its name to TimberWest Holdings Ltd. on January 23, 2007. TimberWest Holdings Ltd. is a wholly-owned subsidiary of the Company. PFP Forest Ltd. and TFL Forest Ltd. were each dissolved by way of voluntary dissolution under the *British Columbia Business Corporations Act* on December 16, 2006 and January 15, 2007 respectively. The Company acquired the property and assets, and assumed the liabilities of each these corporations on dissolution.

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

Business Overview

TimberWest 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 or 825,000 acres of Private Timberland that, over the previous five years have provided an annual average harvest of 2.594 million m³ of logs. The approximate annual growth rate is 8 m³ per hectare per year on the productive land base. 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.

The Company's independent auditor, KPMG Performance Registrar Inc., periodically certifies that the forest management practice on the Company's private timberland continues to meet all Sustainable Forestry Initiative (SFI[®]) requirements. SFI[®] requirements specify that forest harvesting is integrated with environmental and conservation goals for soil, wildlife, water quality protection, conservation of biodiversity, protection of special sites and aesthetics in a manner that ensures a sustainable harvest over the long-term.

TimberWest also holds renewable Crown timber tenures to approximately 0.7 million m³ 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 early in the fourth quarter of 2005. This process continued through 2006 with no sales transaction completed.

In addition, approximately 38,000 hectares or 94,000 acres of TimberWest's private forest lands have been identified as having greater value as Real Estate Properties and will progressively be made available for higher-uses over the next fifteen years. The Company reviews its land base on a periodic basis to update the size of its portfolio of higher-use properties.

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 high-quality timber resources under sustainable forest management is an important competitive element in the solid wood segment of the forest industry. Through intensive silviculture and 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 Sustainable Forestry Initiative (SFI[®]) Program.

Forest Industry Operations

The Company sells most of its log production on the open market, which provides considerable flexibility to meet market opportunities. In fiscal 2006, the sale of logs accounted for approximately 63% 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 2006, approximately 52% of TimberWest's log sales volumes 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, 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 long-range 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 safely, with a strong emphasis on environmental stewardship, sustainable forest management 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.

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 and it is 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.

Public Lands

TimberWest's Crown tenures represent approximately 700,000 m³ of average annual harvest for the Company. 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.

TimberWest is committed to its strategy of Operations Excellence on its 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 183 million board feet of lumber and 0.4 million m³ of wood chips in fiscal 2006.

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. The mill has made progress on increasing productivity and lowering unit costs, but 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 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 continued through 2006 with no sale transaction completed, and has continued into 2007.

Higher-use Properties and Other Revenue Streams

A strategic review of TimberWest's entire land holdings was completed in 2006. The objective of this review was 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. The result of this review was that 38,000 hectares or 94,000 acres of the Company's private lands have been identified as having greater value as real estate properties over the next 15 years. "As is" these properties were identified to range in value as of July 2006 from \$300 - \$450 million, excluding commercial timber values and many of these properties have value-add potential beyond their "as is" value once the timber has been removed. Going forward, real estate is expected to play a greater role in delivering value to TimberWest's unitholders than it has in the past. Compared to similar timberland companies this does not represent any significant diminution of our asset base. Over the 15 years of this plan, the land base will be reduced by less than 1% per year.

There appear to be opportunities to improve the profitability of our real estate program. These opportunities include changing land use designations, obtaining regulatory approvals, creating subdivisions, and installing infrastructure. In selected areas, we believe that such activities may significantly enhance selling prices. TimberWest has committed to develop an in-house real estate unit and develop stronger relationships with communities, stakeholders, consultants and developers in the field.

TimberWest's land holdings also have potential value to be realized from other resources, such as coal bed gas, gravel extraction 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 Financial 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.

In the real estate area, the Company is committed to ensuring that each acre of land is put to its highest and best use. As such, the Company is segregating the real estate portfolio from which it will set performance targets for sales and value-add activities.

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.

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, environmentally responsible, and sustainable manner.

Safety

TimberWest employs a safety management system to ensure appropriate processes, procedures, accountabilities and programs are in place to effectively manage safety issues both internally within the Company and externally with its contractors and the industry in general. TimberWest's *Health and Safety Policy Statement* lays out the Company's overall commitment to providing a safe and healthy workplace for all of its on-site stakeholders, including employees, contractors, suppliers, customers or other visitors to its operations.

TimberWest's *Contractor Health and Safety Policy* sets out the Company's health and safety expectations of all contractors, including prime and sub-contractors. TimberWest undertakes regular safety audits of all its contractors and TimberWest is now working on having all its planning and production contractors SAFE certified by the BC Forest Safety Council (see "Forest Management – Harvesting").

During 2006, the Company undertook an independent evaluation of its safety systems. The study found that the Company has a very solid and well developed program and noted there were few gaps in the safety program. The report made five recommendations for improvement, which the Company is implementing.

On March 5, 2007, the Company became a SAFE Certified company under the BC Forest Safety Council's SAFE certification initiative.

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 17% and has considerable financial flexibility in distributing cash to its unitholder base and for investing in the Operations Excellence strategy and growth where required.

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 Executive Vice-President and Chief Financial Officer have certified that the Company's disclosure controls and procedures were effective as at December 31, 2006.

Recent Developments

Real Estate Review

In 2006, the Company undertook an independent review of its land holdings and established that 38,000 hectares or 94,000 acres of land has real estate potential over the next 15 years. This portfolio is valued "as is" at \$300 - \$450 million. The review was undertaken by Collier's International and it identified higher and better use lands throughout the portfolio primarily located near more populated areas on the south east side of Vancouver Island. The review also found that more than half the lands identified as higher and better use have value add potential, in other words, the "as is" values could be improved by changing the zoning of the land, doing site preparation, planning developments and other value add activities.

Subdivision of TFL 47

Effective December 1, 2006, the Queen Charlotte Island portion of TFL 47, approximately 27,000 hectares, was subdivided from the licence. The Company has entered into TFL 58 which now covers these lands. TFL 58 is subject to an asset sales agreement with transfer to the purchaser pending.

Sales Process for Elk Falls Lumbermill

A strategic review of TimberWest's assets was undertaken in 2005 and it was determined that the Company would be in a superior competitive position without the Elk Falls Lumbermill and Elk Falls may have a more logical owner. As a result, early in the fourth quarter of 2005, the Company commenced a sales process for the lumbermill. This process continued throughout 2006 without a sales transaction completed, and has continued into 2007.

Forest Resources

In contrast to non-renewable natural resources, such as minerals and oil and gas, timber resources can be managed for a predictable and stable volume of timber over a period of time with appropriate silviculture investments. 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 identifies the volume the Company typically harvests annually, including the harvest from the Private Timberlands, the allowable annual cut (AAC) from TFL 47 and Forest Licences, and the historic annual harvest level on Timber Licences outside of TFL 47:

Forest Resources	mm³	% of Total
Private Timberlands	2,000 – 3,000	77
Crown Tenures		
TFL 47 ⁽¹⁾⁽²⁾⁽³⁾⁽⁵⁾	639	20
Forest Licences ⁽³⁾	60	2
Timber Licences ⁽¹⁾⁽³⁾⁽⁴⁾	42	1
Total Crown Tenures	741	23
Total	2,741 – 3,741	100

- (1) Annual harvest from Timber Licences within the boundaries of the TFL is included with the AAC of the TFL.
- (2) The AAC for the portion of TFL 47 managed by TimberWest is 646,793 m³ and has temporarily been reduced by 8,000 m³ under the provisions of Part 13 of the *Forest Act* to account for lands being considered for protected area status or some other status which is incompatible with logging.
- (3) AAC related to replaceable tenures of approximately 99 mm³ has been excluded from this summary of forest resources.
- (4) The rate of harvest on Timber Licences is at the discretion of the licensee. Although harvests from Timber Licences held by the Company have averaged approximately 42 mm³ over the five years ending December 31, 2006 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.

- (5) The volume harvested annually from TFL's and Forest Licences is at the discretion of the Company. The Company is subject to penalties for volume harvested in a cut control period – typically five years in length – which exceeds 110% of the cumulative AAC for the period. Volume harvested in excess of 100% of the cumulative AAC for a cut control period is treated as volume harvested in the subsequent period. If the Company fails to fully exercise the cumulative AAC during a cut control period, the right to harvest the shortfall is not carried forward into subsequent periods.

Private Timberlands

TimberWest's Private Timberlands. TimberWest owns in fee simple approximately 334,000 hectares or 825,000 acres 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 m³ 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, logs harvested from Private Timberlands have a significant margin differential.
- ***Export Markets.*** TimberWest has greater flexibility to export logs from its Private Timberlands to the higher-value export log markets, albeit with some restrictions imposed by both 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 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 737 hectares of the Private Timberlands within TFL 47 that are subject to provincial government harvesting regulations.
- ***Inventory.*** The total Merchantable Timber Inventory on the Private Timberlands as at December 31, 2006, is estimated to be 41.1 million m³. The estimate is based on an inventory system that includes periodic statistical sampling, adjustments for estimated growth and information on harvesting activities. The age distribution on the Private Timberlands is such that increasing amounts of second-growth 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 or 825,000 acres that make up the Private Timberlands, approximately 44,500 hectares or 109,900 acres are non-productive.

Age Class Distribution. The Merchantable Timber Inventory on the Private Timberlands contains 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, 2006, approximately 77% (2005 – 64%) 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 second-growth 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, 2006</u> (years)	<u>Hectares</u> ⁽¹⁾ (in thousands)	<u>%</u>
0-9	44.8	13
10-19	26.5	8
20-29	28.9	9
30-39	45.8	14
40-49	38.6	12
50-59	34.5	10
60-69	20.9	6
70-79	10.2	3
80-119	12.4	4
120+	26.8	8
Total Productive.....	289.4	87
Non-productive or Inoperable.....	44.5	13
Total Private Timberlands.....	333.9	100

(1) These figures include timber that is not currently merchantable. The current inventory of Merchantable Timber is estimated to be 41.1 million m³.

Species Distribution. Douglas fir is the predominant species on the Private Timberlands. Approximately 60% of the total area of the Private Timberlands have stands dominated by Douglas fir. 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 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 31% of the total British Columbia coastal harvest volume, including harvest volume from Crown, private, Federal lands and First Nations reserves for the year ended December 31, 2006 (2005 – 30%).

Taxation. Most of the Private Timberlands are classified as Managed Forests under the *Assessment Act (Managed Forest Land and Cut Timber Values Regulation)*, 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 2006, or \$2.11 per m³ harvested, compared to \$5.8 million, or \$2.02 per m³ for 2005.

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 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 lands in coastal British Columbia averaged approximately \$9 per m³ in 2006, compared to \$11 per m³ in 2005.

TimberWest's Crown Tenures. TimberWest's five renewable long-term Crown timber tenures, including two TFLs 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 m³. 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 licensees' private timberlands

and Timber Licences within the boundaries of the TFL, and to harvest an AAC as determined periodically by the provincial Chief Forester. TFL 47 was renewed for a 25 year term effective March 1, 2000. Approximately 737 hectares of the Company's Private Timberlands remain within TFL 47.

- **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 not exceeding 20 years and are generally replaced every five years for a further term 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 which were last renewed in 2003. One of the Forest Licences is subject to an asset sale agreement.
- **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. The harvesting on Timber Licences are subject to the Forest Practices Code and the *Forest and Range Practices Act*, but the timing of harvesting is at the discretion of the licence holder. These licences are for varying terms and can be extended in increments of 3 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, 2006, approximately 96% (2005 – 87%) 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.

Forest Management

Forest Management Strategy

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.

All of the Crown 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.

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 incorporate 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 it 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 market 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 and other weather-related shutdowns, and increased costs of harvesting at higher elevations due to difficult terrain.

Harvesting

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 safe and environmentally responsible operations, regulatory compliance, and optimal 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 against the financial resources provided in their contract. Our objective is to have all TimberWest logging contractors required to be safe certified by the BC Forest Safety Council by end of 2007.

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 the protection of forest values. Harvesting activities are guided by Forest Development Plans or Forest Stewardship Plans approved by the Ministry of Forests and Range. These plans are generally made available to First Nations and 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 to provide the legal authority to harvest timber subject to the specific conditions attached to each permit.

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

<u>Timber Tenure</u>	<u>Log Production</u> (mm ³)	
	<u>2006</u>	<u>2005</u>
Private Timberlands ⁽¹⁾	2,724	2,875
Tree Farm Licence ⁽¹⁾⁽²⁾	697	741
Timber Licences ⁽²⁾	—	—
Forest Licences ⁽²⁾	14	17
	3,435	3,633

(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.

<u>Tree Species</u>	<u>Log Production</u> (mm ³)	
	<u>2006</u>	<u>2005</u>
Douglas fir	1,996	1,823
Hemlock/balsam.....	560	809
Cedar	99	149
Cypress.....	39	74
Other	30	20
	2,724	2,875

Over the five years ended December 31, 2006, approximately 64% 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 2006 was 62% Douglas fir, 30% hemlock/balsam, 6% cedar and 2% other species.

Reforestation

TimberWest is responsible for reforestation on all Crown lands harvested. Successful regeneration must be achieved within a specified time period and at a prescribed density level. The regeneration commitment requires established stands of suitable tree species to 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. 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 m³ to 780,000 m³ and was in force effective August 1, 2003.

The effective AAC for TFL 47 on December 1, 2006 was 638,693 m³ and reflects a temporary reduction of 8,000 m³ for areas being considered for protected area status under Part 13 of the *Forest Act*. Government is mandated to make decisions on this temporary reduction prior to May 23, 2010. The effective AAC for TFL 47 also reflects a reduction of 33,207 m³ under the provisions of the *Forestry Revitalization Act*.

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 five years ending December 31, 2006, the Company has harvested approximately 42,000 m³ from the Timber Licences it currently holds outside of TFLs, excluding those subject to an asset sale agreement.

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 \$9.5 million and \$10.7 million for the years ended December 31, 2006 and 2005, 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 provincial government agency, the Private Managed Forest Land Council, that administers the *Private Managed Forest Land Act* and regulations, and against the standards of SFI®.

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 Department of Fisheries and Oceans Canada. 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 and will be renewed in 2007.

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.

Provincial log export regulations are currently under review by the BC Minister of Forests.

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 from these lands 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. See "Legal Proceedings – Notice 102" in this annual information form.

Assessment Act, 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 and *Forest and Range Practices Act*. Principal regulators of the Code include: the Ministry of Forests and Range being responsible for administering and monitoring performance; the Ministry of Agriculture and Lands being responsible for planning and the Ministry of Environment being responsible for environmental stewardship. The 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. In certain of these areas, partial harvest systems are employed 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. Licenced water users are notified of plans prior to the commencement of harvesting activities.

Aboriginal Land Claims

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.

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

Log Marketing

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 m³ of logs each year, of which approximately 70% are 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 approximately 0.7 million m³ per year and an annual harvest of approximately 2.6 million m³ per year from the Private Timberlands, approximately 3.3 million m³ of logs are available annually, including a combination of sawlogs and pulplogs. Included in TimberWest's log sales are commitments of approximately 0.6 million m³ 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 \$303.2 million and \$327.9 million for 2006 and 2005, 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 access the higher priced export log market (see “Forest Policy and Regulation - Log Export Regulations”).

Approximately 1.5 million m³ and 1.6 million m³ of logs were sold to export markets during 2006 and 2005, respectively. During 2006, average sales realization for logs sold in export markets were approximately \$28 per m³ higher than would have been realized for these same logs in domestic markets, compared to an average premium on export sales of \$25 per m³ realized on 2005 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, TimberWest 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 TimberWest 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 TimberWest 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. TimberWest is permitted to make up any shortfalls in minimum volumes by wood chips produced at third party facilities from TimberWest’s logs but cannot make up any shortfalls with purchased wood chips. All pulplogs produced by TimberWest 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 TimberWest from disposing of a material part of the Private Timberlands owned by TimberWest unless the transferee assumes the obligations of TimberWest to Catalyst. Any other sale by TimberWest of its harvesting rights or a portion of the Private Timberlands can only be completed if the purchaser assumes a proportionate share of TimberWest’s obligations to Catalyst under the agreement.

TimberWest 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 TimberWest 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 TimberWest.

Under a Pulplog Services Agreement, TimberWest provides pulplog services to Catalyst related to log storage. This agreement remains in force for as long as TimberWest 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 2007.

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 planer mill 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 2006 and 2005 were as follows:

<u>Product</u>	Year ended December 31	
	<u>2006</u>	<u>2005</u>
Lumber (mmfbm).....	183	168
Wood chips (mm ³)	362	310

Lumber sales are predominantly hemlock and Douglas fir specialty and dimension lumber. Approximately two-thirds 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 77% 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 2006 and 2005 is summarized in the following table:

<u>Country</u>	Year ended December 31	
	<u>2006</u>	<u>2005</u>
Japan	66%	48%
Canada.....	11%	20%
China.....	16%	16%
United States	2%	10%
Other	5%	6%
	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, 2006, TimberWest's top ten lumber customers represented approximately 68% 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> (\$ millions)	<u>Market Distribution of Lumber Sales Revenue</u> (% of total)				
		<u>Japan</u>	<u>Canada</u>	<u>United States</u>	<u>China</u>	<u>Other</u>
2006.....	\$ 117.3	79%	4%	2%	8%	7%
2005.....	\$ 92.2	62%	10%	8%	10%	10%

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 April 28, 2006 the governments of Canada and the United States reached a tentative agreement in the softwood lumber dispute resulting in a framework for a final document to be negotiated and signed. The new Canada-United States Softwood Lumber Agreement (SLA) entered into force October 12th, 2006. In November 2006, TimberWest received a net refund of \$3.4 million. The refund consisted of Countervailing and Antidumping duty refunds in the amount of \$3.0 million and accrued interest in the amount of \$0.4 million. Pursuant to the Softwood Lumber Products Export Charge Act, a charge of 18.06% in the amount of \$0.8 million was imposed on the total refund of \$4.2 million.

Under the new Softwood Lumber Agreement (SLA) a Canadian export tax replaced the U.S. Department's (DOC) imposed countervailing duties (CVD) of 8.70% for the coastal BC region, and anti-dumping duties (ADD) of 2.10% for a total deposit rate of 10.80% with an export tax that is now collected by the Government of Canada Revenue Agency as of October 12th, 2006. The new export tax varies between 0 to 15%, based on the "Random Lengths Composite" lumber price. In addition, there is Surge Mechanism triggered on volume, which results in an increase of 150% of the normal export charge for a period.

Real Estate Properties and Other Income

TimberWest historically had a small portfolio of higher and better use lands that it has monetized dependent on market conditions and the availability and timing of developed, zoned and sub-divided parcels. A strategic review of TimberWest's entire land holdings was completed in 2006. The objective of this review was 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. This review identified 38,000 hectares, or 94,000 acres, of land better suited to real estate uses. These properties border lakes, streams, mountains and existing urban developments and consist of fee simple lands suitable for purposes such as conservation, residential, recreational, commercial and industrial uses.

During 2007, TimberWest will identify near term opportunities for undertaking value-added activities on a portion of this property such as titling property, creating lots, potentially servicing lots. As well, the Company will continue to monetize those higher and better use lands with no value-add opportunities. During 2006, the Company sold 3,188 acres for \$32.9 million compared to 2005 when TimberWest sold 1,629 acres for \$13.9 million.

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 resources, such as coal bed gas and mineral rights.

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

Human Resources

As at December 31, 2006, TimberWest employed 406 salaried and hourly employees, compared to 429 employees as at December 31, 2005.

The distribution of employees by business area at December 31, 2006 is as follows:

<u>Business Area</u>	<u>Salaried</u>	<u>Hourly</u> (# of employees)	<u>Total</u>
Elk Falls Lumbermill	27	253	280
Timberland and Real Estate operations.....	79	31	110
Corporate.....	16	-	16
Total	122	284	406

TimberWest employs a unionized workforce in its lumber manufacturing and shipping operations. Strikes or lockouts at the Company, as with the Company's service providers, 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, 2006, 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 currently on lay-off status who were formerly involved primarily in engineering and forestry activities at the Company's timberland operations. This agreement expires on June 14, 2007.

The Communications, Energy & Paperworkers Collective Agreement

The Communications, Energy & Paperworkers Union (CEP) is the certified bargaining agent for TimberWest's hourly employees at the Elk Falls Lumbermill. The collective agreement with CEP expired on April 30, 2006. In 2006, the parties agreed to a recess. Negotiations will resume in 2007.

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 will expire on March 31, 2007.

Environmental Matters

TimberWest is in substantial compliance with applicable environmental laws, including the *Environmental Protection Act* (Canada), the *Waste Management Act* (British Columbia), the *Fisheries Act* (Canada), the Forest Practices Code and permits issued thereunder. In May 2006, following an investigation by the Private Managed Forest Land Council, a determination was made that TimberWest was not in full compliance with *Private Managed Forest Land Act* regulations on a specific area of its private lands relative to the installation of four (4) culverts. This determination included a fine of \$30,000 and a remediation order. The fine was paid and the remedial work was completed immediately upon notification of this determination. Certain improvements have been made to the Company's environmental management systems to avoid a recurrence. At present, there are no other 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 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 six 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.

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

Risks

The Company's operations are subject to a number of risks, including those listed below. When considering an investment in TimberWest, you should carefully read and consider these risks, together with all other information in this report. If any of the following risks actually occur, the Company's business, financial condition or operating results as well as the market price of its securities could be materially adversely affected.

TimberWest manages principal risks of its business through established systems and procedures. 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 changes in market conditions, fluctuations in foreign currency exchange rates and legislative, regulatory and trade policy changes made by different levels of government.

Business and Operating Risks

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 forest management standards, regulatory requirements, and government land-use decisions. 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.

Global Market Risk

The global nature of the log and lumber business causes us to be subject to unexpected, uncontrollable and rapidly changing events and circumstances in addition to those experienced in Canada. Adverse changes in the following factors, among others, could have a negative impact on our business and results in operations:

- Effects of exposure to currency other than the Canadian dollar;
- Regulatory, social, political, labour or economic conditions in a specific country or region; and
- Trade protection laws, policies and measures and other regulatory requirements affecting trade and investment, including loss or modification to taxes and tariffs, and import and export licensing requirements.

Competition Risk

Many of TimberWest's competitors in the forest products businesses have substantially greater financial and operating resources and own more timberlands than the Company. Some of the Company's forest products competitors may also be lower-cost producers in the businesses in which TimberWest operates. In addition, wood products are subject to significant competition from a variety of non-wood and engineered wood products. TimberWest is also subject to competition from forest products produced in many jurisdictions around the world. To the extent there is a significant increase in competitive pressure from substitute products or other domestic or foreign suppliers, the Company's business could be adversely affected. With respect to the Company's real estate business, TimberWest is currently transitioning from a bulk land seller to adding value to its real estate portfolio by changing the zoning of the land, doing site preparation, planning developments and other value add activities to enhance value. Real estate developers in this segment have greater experience in real estate development than TimberWest.

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 aerial attack. 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. The Company does, however, maintain insurance for loss of logs due to fire and other occurrences following harvesting.

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 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 (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 and wood chips. Prices for these products are dependent on supply/demand balances for pulp fibre on the BC coast, which are in turn affected by market and economic conditions surrounding the demand and supply of pulp globally.

In addition, the real estate business is also cyclical and influenced by factors beyond our control. The demand for real estate can be affected by changing interest rates, local economic conditions and population growth and demographics.

Regulatory Risk

TimberWest is subject to numerous and increasingly stringent forestry and environmental laws and regulations of general application relating to forest practices, 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.

Input Cost Risk

The price of raw material and energy can be volatile and is susceptible to rapid and substantial increases due to factors beyond the Company's control such as changing economic conditions, political unrest and instability in energy-producing nations, and supply and demand considerations. For example, oil and natural gas costs have increased substantially in recent years. Increases in production costs could have a material adverse effect on the Company's business, financial condition and results of operations.

Financial Conditions and Profitability of Logging Contractors

Virtually all of the Company's road building and timber harvesting operations are performed by independent contractors. TimberWest is dependent on an economically viable, competitive pool of logging contractors. If some of TimberWest's large stump-to-dump contractors were to become insolvent, TimberWest's financial condition and results of operations would be adversely impacted until replacement contractors could be retained.

Third Party Risk

Environmental groups and interested individuals may seek to delay or prevent a variety of operations on the Company's land base. It is possible that environmental groups and interested individuals may intervene in the regulatory processes in timberlands that TimberWest owns or manages. Challenges to the Company's harvesting real estate and other operations on its land base plans could materially delay or prevent operations on its properties.

Environmental Hazard Risk

TimberWest currently owns properties which may require environmental remediation or otherwise be subject to environmental and other liabilities. TimberWest currently owns, or formerly operated, manufacturing facilities and discontinued operations which are subject to environmental liabilities, such as cleanup of hazardous material contamination and other existing or potential liabilities of which the Company is not currently aware. The cost of investigation and remediation of contaminated properties could increase operating costs and adversely affect financial results. Although TimberWest believes that it has adequate reserves for the investigation and remediation of its current properties, there can be no assurance that actual expenditures will not exceed the Company's expectations.

Real Estate Regulatory Risk

Entitlement and development of real estate entails an extensive approval process involving overlapping regulatory jurisdictions. Real estate projects must generally comply with the provisions of local governments and local land use and development regulations. Compliance with these regulations can be lengthy and costly and significant conditions can be imposed with respect to a particular project. Any of these issues can be expected to materially affect the cost and timing of the Company's real estate activities.

Changes in the interpretation or enforcement of these laws, the enactment of new laws regarding the use and development of real estate, or the identification of new facts regarding the Company's properties could lead to new or greater costs, delays and liabilities that could materially adversely affect the Company's results of operations.

Real Estate Risk

A number of factors, including changing demographics and economic conditions, a slowing of commercial or residential real estate development could reduce the demand for such properties and negatively affect the Company's results of operations.

In addition, there are inherent uncertainties in the timing of real estate transactions that could adversely affect the operating results. Delays in the completion of transactions or the termination of potential transactions can be caused by factors beyond the Company's control. These events may in the future adversely affect our operating results.

Environmental Risk

Weather conditions, timber growth cycles and restrictions on access may limit harvesting of the Company's timberlands, as may other factors, including damage by fire, wind and rain storms, insect infestation, disease, prolonged drought and natural disasters.

Geographic Risks

TimberWest owns or manages approximately 334,000 hectares or 825,000 acres of timberland and real estate located on Vancouver Island. Accordingly, if the level of production from these forests substantially declines, or if the demand for timber or real estate declines, it could have a material adverse effect on the Company's overall production levels and our revenues.

Human Resource Risk

TimberWest believes that the Company's success depends, to a significant extent, upon its ability to attract and retain key senior management and operations management personnel. The Company's failure to recruit and retain these key personnel could adversely affect its results of operations.

Interest Rate Risk

One of the factors that may influence the price of the Company's stapled units will be the yield as compared to yields on other financial instruments. Thus, an increase in market interest rates will result in higher yields on other financial instruments, which could adversely affect the price of TimberWest's stapled units.

Currency Risk

TimberWest sells a substantial volume of products outside of Canada (60% of gross sales in 2006), 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. The Company's approach to managing this risk has been to work on reducing costs in an effort to improve its competitiveness on a global basis.

Uncertainties

Business Transformation Initiative

A key Operations Excellence initiative implemented by the Company in 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. Over time, the success of this initiative will be affected by market forces and the labour relations environment on the coast of BC.

Future Regulation

Environmental laws and regulations are constantly changing, and are generally becoming more restrictive. Laws, regulations and related judicial decisions and administrative interpretations affecting the Company's business are subject to change and new laws and regulations that may affect its business are frequently enacted. These changes may adversely affect the Company's ability to harvest and sell timber, operate manufacturing facilities and/or develop real estate. These laws and regulations may relate to, among other things, the protection of timberlands, endangered species, timber harvesting practices, recreation and aesthetics, air and water quality, and remedial standards for contaminated property and ground water. Over time, the complexity and stringency of these laws and regulations have increased markedly and the enforcement of these laws and regulations has intensified. TimberWest believes that these laws and regulations will continue to become more restrictive and over time adversely affect the Company's operating results.

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 on lands acquired before 1906 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 offer 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 2006, TimberWest sold 1.5 million m³ of logs into markets in Asia and the US West Coast at an average sales price premium of \$28 per m³ 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.

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. This action went to trial in the Federal Court in Spring 2006 and the Company received a decision from the Federal Court of Canada on February 8, 2007. The action was dismissed. The Company has filed a notice of appeal with the Federal Court of Appeal. 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 has no active unionized employees of its own in its timberland operations however, the majority of its contract workforce is unionized. TimberWest also employs a unionized workforce in its lumber manufacturing and shipping operations. Strikes or lockouts at the Company or the Company's service providers, or its customers' operations could restrict TimberWest's ability to carry on its business and could materially adversely affect the Company's financial condition 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

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.

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

OUTLOOK FOR 2007

In the near term, we continue to expect prices for logs and lumber to be weak in the US market while remaining relatively strong in other markets that we sell into. Weather-related curtailments throughout our region are causing log shortages, placing upward pressure on domestic log prices but also making it increasingly difficult to sell into export markets as local mills continue to block our export shipments using federal Notice 102.

Margins in our core timberlands business are expected to remain comparable to 2006 levels for 2007 while the sawmill's performance is expected to weaken as competition intensifies in the Japanese market

We expect to see real estate values hold on Vancouver Island and are looking forward to 2007 being another good sales year and a transition year for our real estate business unit as we build our organization and develop a longer range plan for our value-added activities.

While the US housing market is expected to remain weak in the short run, long term prospects for log demand from our region are very good. With Asia continuing to increase its demand for logs and lumber, with positive demographics in the US expected to result in the return to a strong housing market, and with the inevitable future supply shortages caused by the Mountain Pine Beetle infestation in the BC Interior and further harvest level reductions in eastern Canada, we believe demand and pricing for log and lumber products in our region will improve.

We are starting 2007 in a strong financial position and we expect to generate sufficient distributable cash in the year from both real estate and forestry operations to fund all of our unitholder distributions.

LEGAL PROCEEDINGS

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 proceeded to trial in the Federal Court in Spring 2006. The Company received a decision from the Federal Court of Canada on February 8, 2007. The action was dismissed. The Company filed a notice of appeal with the Federal Court of Appeal.

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

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 *British Columbia Business Corporations 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

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, D and E. The Company has issued Class B preferred shares under series A, D and E. These shares are held by the Company's subsidiaries and are eliminated upon consolidation.

Debentures

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

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, 2006. These ratings did not change during 2006. 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

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.

	2006	2005	2004
Total distributions announced <i>(in millions of dollars)</i>	\$ 83.6	\$ 83.3	\$ 82.5
Total distributions paid <i>(in millions of dollars)</i>	\$ 83.6	\$ 83.1	\$ 82.3
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 2006:

	High	Low	Close	Volume
January 2006	\$15.50	\$13.70	\$13.98	4,684,013
February 2006	\$14.30	\$13.50	\$13.90	3,920,919
March 2006	\$14.99	\$13.50	\$14.11	2,971,153
April 2006	\$14.50	\$13.82	\$14.10	3,367,138
May 2006	\$14.34	\$13.60	\$14.05	4,572,521
June 2006	\$14.47	\$13.75	\$14.34	3,676,604
July 2006	\$15.30	\$14.10	\$15.24	3,737,849
August 2006	\$15.27	\$13.89	\$13.95	2,889,028
September 2006	\$14.50	\$13.91	\$14.23	2,110,806
October 2006	\$14.30	\$13.29	\$13.34	4,566,927
November 2006	\$15.24	\$11.81	\$15.00	5,758,573
December 2006	\$15.59	\$14.71	\$15.07	2,559,473

DIRECTORS AND EXECUTIVE OFFICERS

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

Directors

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

(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.

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, 2007.

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 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

Name and Municipality of Residence	Position	Principal Occupation
John A. Kelvin North Vancouver, British Columbia, Canada	Vice-President, Log Marketing and Sales	Officer of the Company; prior to May 2001, Manager, Log Marketing and Sales of the Company.
Hamish Kerr West Vancouver, British Columbia, Canada	Vice-President, Strategic Planning and Forest Policy	Officer of the Company; prior to June 2002, independent consultant.
Paul J. McElligott North Vancouver, British Columbia, Canada	President and Chief Executive Officer	Officer of the Company; prior to January 2001, President and Chief Executive Officer, BC Rail Group of Companies.
Beverlee F. Park West Vancouver, British Columbia, Canada	Executive Vice-President and Chief Financial Officer	Officer of the Company, prior to September 2006, Vice-President, Finance and Chief Financial Officer.
Gerry G. Young Courtenay, British Columbia, Canada	Vice-President, Timberland Operations	Officer of the Company; prior to June 2005, Assistant Vice-President, Timberland 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 over less than 1% of the issued and outstanding Stapled Units.

AUDIT COMMITTEE

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

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 Audit Committee 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 2001. 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 Lallmand Inc. and Ritchie Bros. Auctioneers Incorporated, 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

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	2006	2005
Audit fees	\$225,360	\$220,330
Audit-related fees	11,000	9,500
Tax related fees	Nil	Nil
All other fees	66,000	83,912
	\$302,360	\$313,742

For 2006, 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 SFI[®] certification and advisory services related to the disposition of assets.

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 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

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

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

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 as of February 28, 2007, for the Company's Annual and Special General Meeting to be held on April 27, 2007.

Financial Information

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, 2006, and the auditor's report thereon, which are included in the Company's 2006 Annual Report.

FORWARD LOOKING STATEMENTS

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, stumpage 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

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;

“**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 February 28, 2007, is \$83.7 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;

“**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;

“**m³**” means cubic metres;

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

“**Merchantable Timber Inventory**” means, in respect of a particular tenure or area, the volume of Merchantable Timber 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;

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

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

“**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 TimberWest;

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

“**PFP Forest**” means PFP Forest Ltd., formerly a wholly-owned subsidiary of Pacific which was dissolved on December 16, 2006;

“**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 TimberWest;

“**Real Estate Properties**” means properties that TimberWest 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 38,000 hectares, or 94,000 acres, at any one time, and are identified as the Company determines them to be surplus to its harvesting requirements;

“**SFI[®]**” means the Sustainable Forest Initiative Program;

“**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 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 Vancouver Island, the mainland coast and Johnstone Strait, British Columbia;

“**TFL Forest**” means TFL Forest Ltd., formerly a wholly-owned subsidiary of the Company which was dissolved on January 15, 2007;

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

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

APPENDIX – TERMS OF REFERENCE FOR THE AUDIT COMMITTEE

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 literate¹, 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 releases;
- iii) review and recommend to the Board for approval, the financial content of the annual report and

¹ 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;
 - 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; and
 - 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 withholding 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; and
- viii) disclose if the Company has relied upon any exemptions to the requirements for Audit Committees under regulatory requirements.

F. OTHER

- i) review and approve any audited financial statements for TimberWest Retirement Plans. Retirement Plans include the TimberWest Forest Corp. Retirement Plan for Salaried Employees, the TimberWest Forest Corp. Supplemental Retirement Plan for Senior Management, the TimberWest Forest Corp. Supplementary Retirement Plan and the Pacific Forest Products Limited Supplementary Retirement Benefit Plan;
- ii) review insurance coverage of significant business risks and uncertainties;
- iii) review material litigation and its impact on financial reporting;
- iv) review policies and procedures for the review and approval of officers' expenses and perquisites; and
- v) review and approve the Company's hiring policies regarding partners, employees and former partners and employees of the present and former external auditor;
- vi) 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; and
- vii) 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.