

2010 Tax Information for Canadian Resident Holders of Stapled Units

The following questions and answers may be of interest to holders of Stapled Units during 2010 who are resident in Canada. This information is not taxation advice provided by TimberWest to any particular holder of Stapled Units or any other person and TimberWest accepts no liability to any holder of Stapled Units or any other person relying on this information. **The taxation of the ownership of Stapled Units by any particular holder of Stapled Units is complex, depends on the holder's particular circumstances and must be determined by the holder in consultation with the holder's own tax advisors.**

The only interest paid by TimberWest in respect of the Stapled Units during 2010 was interest that accrued on the Stapled Units during the period January 1, 2009 to March 31, 2009 which was deferred and paid in kind on October 15, 2010 through the issuance of Stapled Units (the "**October 15, 2010 Interest Payment**"). The October 15, 2010 Interest Payment was \$0.0388 per Stapled Unit.

Question 1: What amount is a holder who received the October 15, 2010 Interest Payment required to include in income in 2010 in respect of the October 15, 2010 Interest Payment?

A holder will be required to include the amount of the October 15, 2010 Interest Payment received by it in income for 2010 except to the extent that the holder has already included accrued interest for the period January 1, 2009 to March 31, 2009 in the holder's income (e.g., because the holder had to include this accrued interest in income in 2009 due to the interest accrual rules in the *Income Tax Act* (Canada) (the "**Tax Act**").

A holder who acquired the Stapled Unit after January 1, 2009 and prior to October 15, 2010 (other than where the Stapled Unit was acquired from TimberWest on the original issuance of the Stapled Unit) may be entitled to a deduction pursuant to paragraph 20(14)(b) of the Tax Act in respect of any portion of the October 15, 2010 Interest Payment that accrued prior to the holder acquiring the Stapled Unit.

Question 2: Is a holder of a Stapled Unit during 2010 required to report for tax purposes any amount in respect of interest that accrued on the Stapled Units in 2010 even though none of this interest has been paid?

Even though TimberWest has not paid any amount in respect of interest which accrued during 2010, Canadian income tax rules require certain holders of Stapled Units, including holders that normally report interest on a received basis, to include, in their income for 2010, certain amounts of interest that accrued on the Stapled Units.

Question 3: What amount should be reported as interest income in respect of a Stapled Unit by a holder who held a Stapled Unit during 2010?

Corporations, partnerships, unit trusts or any trust of which a corporation or a partnership is a beneficiary

A corporation, a partnership, unit trust or a trust which is not a unit trust having a corporation or a partnership as a beneficiary is required to report interest income on an accrual basis. During 2010, interest would be required to be accrued at the rate of \$0.0004920 per day based on the 2% minimum rate of interest applicable to a Stapled Unit. Such a holder may also be required to include in income all or a portion of the amount of the October 15, 2010 Interest Payment received by the holder (see Question 1 above).

All other holders (i.e., individuals and trusts which are not unit trusts and which do not have a corporation or partnership as a beneficiary)

The following comments assume that a holder which is an individual or a trust (other than a unit trust) which does not have a corporation or partnership as a beneficiary will not report interest income on Stapled Units on an accrual basis (as described above for corporations, partnerships, unit trusts and other trusts) or a receivable basis.

For a holder which is an individual or a trust (other than a unit trust) which has no corporations or partnerships as beneficiaries, the amount of income to be reported for 2010 in respect of accrued interest will depend on when the Stapled Unit was acquired and whether it was disposed of during 2010. If a Stapled Unit was acquired prior to October 1, 2010, the holder should include an amount in income with respect to accrued interest for the 2010 year. Where the Stapled Unit was acquired prior to October 1, 2010 and continued to be owned on January 1, 2011, the amount of accrued interest to include in income for 2010 would be the amount of interest that has accrued to the holder during the period from the later of a) the date the holder acquired the Stapled Unit and b) October 1, 2009 to and including September 30, 2010. In this regard, interest accrued on a Stapled Unit at a rate of \$0.000492 per day. A holder that acquired a Stapled Unit after September 30, 2010 and continued to hold the Stapled Unit on January 1, 2011 is not required to include any amount in income with respect to accrued interest on that Stapled Unit for the 2010 year.

In addition to the accrued interest amounts described above, a holder which is an individual or a trust (other than a unit trust) which has no corporations or partnerships as beneficiaries may also be required to include in income all or a portion of the amount of the October 15, 2010 Interest Payment received by the holder (see Question 1 above).

The following examples illustrate the application of the foregoing description as well as other possible circumstances involving the ownership and disposition of a Stapled Unit during 2010. The examples do not deal with the calculation of the gain or loss arising from the disposition of a Stapled Unit or the amount of interest to be reported in respect of the October 15, 2010 Interest Payment.

Examples:

1. An individual holder acquired a Stapled Unit prior to September 30, 2009 and still holds the Stapled Unit on January 1, 2011.

This holder would be required to include \$0.17958 in income for 2010 with respect to the Stapled Unit. This is the amount of interest that accrued on the Stapled Unit from October 1, 2009 to and including September 30, 2010 at \$0.0004920 per day for 92 days in 2009 and \$0.0004920 per day for 273 days in 2010.

2. An individual holder acquires a Stapled Unit on May 18, 2010 and still holds the Stapled Unit on January 1, 2011.

This holder should include the amount of interest that accrued on the Stapled Unit from May 18, 2010 to and including September 30, 2010 in income for 2010. Thus, the holder will include \$0.066912 in income, being 136 days at a rate of \$0.0004920 per day.

3. An individual holder acquired a Stapled Unit on November 3, 2010 and still holds the Stapled Unit on January 1, 2011.

This holder would not have to include any amount in income with respect to interest on the Stapled Unit for the 2010 year. Individual holders that acquired a Stapled Unit after September 30, 2010 are not required to report accrued interest in 2010. However, if such holder disposes of the Stapled Unit at a time when interest has accrued on the Stapled Unit, the holder would be required to include the amount of the accrued interest to the date of disposition in income in the year of disposition to the extent it has not already been included in income.

Question 4: What happens if a holder sells a Stapled Unit at a time when accrued interest is outstanding?

On the sale of a Stapled Unit, a holder is required to include in income the amount of interest that has accrued to the holder to the date of disposition to the extent the amount has not otherwise been included in income.

The holder should be able to deduct the amount of any accrued interest previously included in income and that remains unpaid at the time of disposition to the extent that the amount of such accrued interest exceeds the consideration received on the sale of the Stapled Unit that is reasonably attributable to accrued interest.