



October 25, 2000

Questions & Answers — Closure of Cowichan Lumbermill

Q: When will union employees at Cowichan Lumbermill find out exactly what the severance package will include?A: TimberWest representatives will meet with the local union and we will share information with employees as decisions are made. Letters will be prepared for each union employee advising them of their severance entitlements.Q: What other provisions are included in the termination agreement – i.e. training, resume writing etc.?

A: There will be an Industrial Adjustment Committee formed as part of the closure process. The Committee will address adjustment issues such as re-location, re-training and other employment opportunities.

Q: What if another company comes along with a proposal to buy the mill, will you still consider it?

A: TimberWest is prepared to consider any legitimate proposal that meets its criteria: financial terms, employment terms and fibre commitments.

Q: The IWA is interested in examining the feasibility of an employee purchase of Cowichan Lumbermill and TFL 46. Are you open to this possibility?

A: We will be happy to work with the union in this feasibility analysis. However, we are proceeding with closure notice due to the uncertain outcome of this initiative.

Q: Why are you closing the mill? Couldn't you invest and update it and continue to run it?

A: Continued operation of the mill does not fit in with TimberWest's long-term strategy of focusing on its core private timberland investments, therefore it is not strategic for us to invest in upgrading the mill.

The Ministry of Forests undertook an independent study of the mill as part of its Mill Closure Review Process. The report stated:

- TimberWest is making a sound corporate decision in deciding to close the operation.
- Although the mill is reasonably efficient, it remains unprofitable. Profitability is effectively negative when the cost of interest on full working capital requirements is assigned to the mill.
- Collapse of the Softwood Lumber Agreement with resulting free access to the U.S. market will not lead to improved profitability given market outlook.



- The mill is not currently well suited for the small logs which will be available in the future and will need substantial capital investment, which can't be justified by past performance. The report suggested that \$10-12 million would be required.
- A number of knowledgeable mill people and financial analysts have reviewed the situation at Youbou and have concluded that such a capital investment would not be viable.

Q: This will have a negative impact on several communities. What does TimberWest plan to do about that?

A: TimberWest will participate with communities in an Industrial Adjustment process. As a major land owner in the Cowichan Lake area, we are willing to participate in economic development planning with a view to investigating opportunities to diversify the local economy into such areas as enhanced recreation and tourism as it may involve our private lands.

The company's harvesting and forest management activities in the area will continue to employ many people and to use the services provided by local businesses.

Q: Now that TimberWest won't need to send any logs to Cowichan Lumbermill, what will you do with that fibre?

A: Logs no longer processed by the Cowichan Lumbermill will be processed by TimberWest's Elk Falls Lumbermill, sold to meet Fletcher Challenge chip requirements or sold on the open market.

Q: What does this mean for HBO employees? How will this affect them?

A: HBO employees will continue to operate as planned for the rest of the year. Going forward, we will truck logs to Shoal Island instead of putting them into Cowichan Lake.

Q: What are your plans for TFL 46 now?

A: TFL 46 will continue to operate according to approved Forest Development Plans.

Q: Given the appurtenance clause that ties TFL 46 to Cowichan Lumbermill, won't the government take back some of the TFL?

A: There is no requirement in the tenure contract that the Cowichan Lumbermill must be supplied from TFL 46. The TFL was granted for the purpose of providing fibre in support of the construction and running of the Crofton pulp mill and this appurtenance requirement will continue to be met through existing fibre supply agreements.

Q: If TimberWest wants to focus on private timberlands, what are the plans for Elk Falls and TLF 47?

A: Harvesting and forest management operations on TFL 47 are not affected by the closure of the Cowichan Lumbermill. The operations of the Elk Falls Lumbermill will be adjusted to ensure that certain customer requirements previously served by the Cowichan Lumbermill will continue to be met.

While our long term strategy is to focus on private timberland management, our immediate goal is to maintain efficient operations on TFL 47 and to optimize production from the Elk Falls Lumbermill, markets permitting.

Q: What about TimberWest's participation in the Lake Cowichan community forest?



A: TimberWest continues to manage TFL 46 and therefore plans to continue with the Joint Venture agreement. We have recently written to the Lake Cowichan Community Forest Cooperative to confirm this approach.