

TimberWest NEWS

SHARING SAFETY AND BUSINESS INFORMATION



SAFETY GOALS A CHALLENGE...

TW has achieved an overall MIR of 4.72 to date. While some operations are doing exceptionally well, not all are meeting their mid-year targets. Achieving a 6.0 MIR may be a challenge.

“Some operations will have to work accident-free for the rest of the year to make their goals,” said John Mann, VP, Timberland Operations. “We have more lost-time accidents than we want to have.”

In the first six months of this year, TW had 15 LTAs versus eight for the same period last year.

Look for more on safety at the operations in upcoming issues of *TW News*.

HOURS CHANGE DUE TO FIRE HAZARDS...

With the recent heat wave and relatively low humidity, most TW crews are working 5 a.m. to 1 p.m. shifts. Forest fires are an extreme hazard at the moment.

“If it gets to a point that the relative humidity is less than the temperature, we may have to take some downtime,” said John Mann, VP, Timberland Operations.

He explained that cables traveling through blocks are close to the ground and throw off sparks, as often do the tracks of heavy equipment, which could ignite a fire if the conditions are dry enough. A couple of fires have sparked up on TW’s lands, one at Oyster River and another that leapt from an adjacent landowner’s site in Sooke.

“The Martin Mars water bombers are proving to be invaluable this year,” John added.

The Mars water bombers attended the Sooke fire, which consumed 5 hectares, and helped control a fire at Nanaimo River for Weyerhaeuser.

TW CELEBRATES FIVE YEARS...

TimberWest Forest Corp., incorporated on January 31, 1997, acquired portions of the business of TimberWest Forest Limited on June 23, 1997. TW then acquired the private timberlands of Pacific Forest Products Limited on December 10, 1997, making it the largest owner of private forestland in BC.

Some of TW’s achievements include:

- First Canadian company to complete third party ISO certification for all of its operations and SFI

certification for its private lands;

- In 1999, implemented new watershed management policy for private lands, which has since received a number of accolades;
- In 2000, a Workers’ Compensation Board Officer cited TW’s safety program as setting the standard for safety in BC;
- Also in 2000, Private Land Forest Practices Regulations came into effect, the result of the combined four-year effort of government and the Private Forest Landowners Association, to which TW belongs;
- A unique agreement with the Nature Conservancy of Canada (NCC) that will result in the protection of key areas of the company’s private lands that support high conservation values on Vancouver Island, including donating 131 hectares located within the Capital Regional District Sea-to-Sky corridor, valued at \$704,000, and contributing \$50,000 over two years to support eco-regional planning for coastal forests and \$300,000 over 10 years to support scientific assessments of portions of the company’s lands that are surplus to its business operations;
- Log market diversification – premiums from log exports made up 50 percent of our distributable cash in 2001;
- Since inception, generated \$361.9 million in total distributed cash and gave back \$361.2 million to unitholders, as of July 15, 2002.

TW MOVES AHEAD AFTER DOWNSIZING...

In accordance with TW’s new strategic plan to enhance the performance of all its businesses, the company has reduced the number of employees. TW is taking a one-time restructuring charge to earnings of \$9.8 million in the second quarter to cover the cost of severance, early retirement programs and closure of facilities.

CEO Paul McElligott said:

“We thoroughly examined all positions within TW to determine how best to streamline staff and increase efficiencies. As a result, approximately 50 positions have been permanently eliminated, most of them salaried jobs, resulting in an annual savings of approximately \$6 million.

“While these were difficult decisions, we know it was much harder on the loyal, hardworking people who have left. But this downsizing is part of the re-



Opening Unit Price:	July 10/02	July 24/02
	\$13.71	\$12.72

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design of TW that is necessary to be a profitable, performance-oriented company that provides a good return on investment. I believe the changes also provide greater job security for the overwhelming number of salaried jobs that remain.

"We are committed to the environment and to harvesting sustainability across the company. That will not be compromised. In fact, we plan to add resources in Hamish Kerr's area of forest policy, including a new position of silviculture forester, to enhance our sustainability both environmentally and financially. The objective is to increase the net present value of the company's timberlands through increased investment in silviculture. We've also added new expertise at Elk Falls to better position the mill for future success. The new team in place there – Ed Vervynck, John Burch and Terry Hamilton – has already made exciting progress with productivity enhancements and cost reduction.

"These are signs of renewal. And while there's no doubt we have challenges ahead, I am convinced that TW will be one of the companies on the coast of BC that will survive and thrive through this time of industry-wide change.

"I know it can be hard on the people who are continuing with the company to see people you've worked with for years leave, however, the company has an exciting future and those who are staying on all have a significant role to play in building that future and sharing in the rewards of our success. We need your continued support. We also need your ideas and your help."

WEAK MARKETS AFFECT Q2 RESULTS...

In the second quarter, TW generated \$20.4 million in distributable cash, before a restructuring charge of \$9.8 million.

These results are down from the same period in 2001, largely due to the fact that log prices were at historic lows for many log sorts. Not only were markets weaker during the quarter, but the company's overall log sales mix was weaker, with a higher than average component of pulp logs.

In addition, the timing of the company's real estate sales has been different this year from past years, but has improved early in the third quarter due to real estate transactions resulting in \$14 million in sales.

TWO FORMER NHL PLAYERS AMONG EARLE CREEK BUYERS...

Earlier this month, TW sold 12 properties in the Earle Creek region of the Sunshine Coast for \$11.5 million to Pacific North Woods Company and its partners, which includes logging operator Pinnacle Ventures (2002) Ltd, former NHL players Geoff and Russ Courtnall, and a third party. The four waterfront properties and eight timbered properties totalled

approximately 2,350 hectares.

"The land has real estate potential and some timber value," said Gordon Littlejohn, Director, Real Estate Group. "Earle Creek was separate and isolated from our core operating areas on Vancouver Island. We could not recover the same value from merchandising the timber as could a smaller operator because our harvesting standards are more stringent."

The Earle Creek properties were acquired by TW in 1997 when it purchased Pacific Forest Products. Two years ago, the gravel reserves at Earle Creek were sold to Lafarge Canada.

Pacific North Woods Company and its partners will begin harvesting on the timbered properties and plan to eventually develop the waterfront real estate.



EELK FALLS BENEFITS FROM MARKET DIVERSIFICATION...

Elk Falls Lumbermill has been supplying export markets in Japan, Belgium and Australia since the US slapped a 27 percent tariff on softwood lumber exports from Canada.

"We have been forced out of the US dimension market," said John Burch, Director, Marketing and Transportation for the Lumber Manufacturing Division of TW. "Prices in the US dropped significantly as a result of oversupply of the market. Between that and the levy, it makes it difficult to sell into the US. Elk Falls has focussed on export markets outside of North America."

Elk Falls' primary market is Japan, which has traditionally purchased hemlock, but the company is looking to increase its fir sales there. Belgium and Australia are smaller fir markets. John added that he expects sales into Japan to grow.

European lumber manufacturers are now diverting some Japan production to US markets because the Euro is almost at par with the US dollar, nearly a 20 percent increase from two months ago. Lumber shipments from Europe to the US are up 122 percent.

"European manufacturers are diverting supply to the US market duty-free, so we're anticipating improvement in our Japanese markets going forward," John said. "This should hold as long as our currency doesn't strengthen too much against the US dollar."

John believes that opportunities in the US market will evolve and is encouraged by news that the World Trade Organization ruled against a US law that gives its companies the proceeds from fines Washington levied against some of its trade partners. He thinks that may bode well for Canada's challenge of US duties that threaten \$10 billion in annual softwood imports. A ruling on the second issue is expected later this month.