Preliminary Prospectus Dated May 5, 1997

This is a preliminary prospectus relating to these securities, a copy of which has been filed with the securities commissions or other regulatory authorities in the provinces of British Columbia, Alberta, Saskatchewan, Manitoba and Ontario, but which has not yet become final for the purpose of a distribution to the public. Information contained herein is subject to completion or amendment. These securities may not be sold to, nor may offers to buy be accepted from, residents of such jurisdictions, prior to the time a receipt is obtained for the final prospectus from the appropriate securities commission or other regulatory authority in such provinces.

This prospectus constitutes a public offering of these securities only in those jurisdictions where they may be lawfully offered for sale and therein only by persons authorized to sell such securities. No securities commission or similar authority in Canada has in any way passed upon the merits of the securities offered hereunder and any representation to the contrary is an offence. The securities offered herein have not been and will not be registered under the United States Securities Act of 1933*, as amended, (the "U.S. Securities Act") and, subject to certain exceptions, may not be offered or sold within the United States or to U.S. persons. See "Plan of Distribution".*

Initial Public Offering ● , 1997

TIMBERWEST TIMBER TRUST

$335,379,500

33,537,950 Trust Units of which 33,461,000 Trust Units are Issuable Upon Exercise of Previously Issued Special Deposit Warrants

Each Trust Unit represents an equal fractional beneficial interest in the TimberWest Timber Trust (the "Trust"). The Trust has been created to acquire all of the shares of TimberWest Forest Limited immediately following the sale of its Interior Operations. See: "Acquisition of TimberWest". Following the Acquisition Closing, all of TimberWest's Continuing Operations will be conducted on the coast of British Columbia where TimberWest owns in fee simple approximately 210,000 hectares (520,000 acres) of private timberlands and two lumbermill complexes and has rights to Crown timber tenures. TimberWest is engaged in the harvesting and sale of logs and the processing and sale of softwood lumber. Following the Acquisition Closing, the Trust will own all of the TimberWest Shares and the Notes.

This prospectus qualifies the distribution of 33,461,000 Trust Units to be issued upon the exercise or deemed exercise of 33,461,000 Special Deposit Warrants previously issued by the Trust at a price of $10.00 per Special Deposit Warrant by way of private placement. The Special Deposit Warrants were issued and sold to investors as provided for in an agency agreement dated March 21, 1997 between the Trust and Goepel, Shields & Partners Inc. (the "Agent") at a price of $10.00 for each Special Deposit Warrant payable as to $2.00 per Special Deposit Warrant (the "First Instalment") on the date of issue of the Special Deposit Warrants and $8.00 per Special Deposit Warrant (the "Final Instalment") on or before 12:00 noon (Vancouver time) on the business day immediately prior to the day of the Acquisition Closing (the "Final Instalment Deadline"). The Special Deposit Warrants were issued under a Special Deposit Warrant Indenture dated as of March 21, 1997 between the Trust and Montreal Trust Company of Canada, as Warrant Agent. Provided that the Final Instalment has been paid to the Trust on or before the Final Instalment Deadline, the Special Deposit Warrants will be automatically exercised at 4:30 p.m. (Vancouver time) on the earlier of: (i) December 31, 1997; and (ii) the fifth business day after the date upon which a receipt for a final prospectus is issued by the last of the securities regulatory authorities in the provinces of British Columbia, Manitoba and Ontario (the "Jurisdictions") qualifying the distribution of the Trust Units to be issued upon exercise of the Special Deposit Warrants. The Special Deposit Warrants will be repurchased by the Trust for the amount paid for such Special Deposit Warrants, plus the pro rata portion of interest earned by the Warrant Agent on the First Instalment, if, by May 30, 1997 or such later date up to June 30, 1997 as the Trust may specify, in accordance with the Warrant Indenture, by notice in writing to the Warrant Agent, the Warrant Agent has not received: (i) written confirmation from counsel to TAL Acquisition Ltd. that all conditions for the completion of the Acquisition have been fulfilled or waived, other than the payment of money on the Acquisition Closing; and (ii) an opinion of counsel to the Trust to the effect that the Trust qualifies or will qualify on the Acquisition Closing as a "mutual fund trust" within the meaning of the *Income Tax Act* (Canada). See "Private Placement and Plan of Distribution".

This Prospectus also qualifies the distribution of 76,950 Trust Units to be subscribed for upon the Acquisition Closing by a subsidiary of the Canadian chartered bank providing financing to TimberWest; see "Share and Loan Capital of TimberWest — Operating Loan, Term Loan, Bridge Loan and Senior Subordinated Bridge Loan".

There is currently no market for the Trust Units. The terms of the offering of Special Deposit Warrants were determined by negotiation between the Trust and the Agent. The offering price for the Special Deposit Warrants and the Trust Units was based on the price to be paid by TAL pursuant to the Acquisition for the issued common shares of TimberWest, which was determined by negotiation between TimberWest and TAL and FCCL and TAL.

(Continued on next page)

Investment in the Trust Units is subject to certain risks that should be considered by prospective purchasers including the complete dependence of the Trust upon TimberWest to generate distributable cash for payment to Unitholders and fluctuations in the trading price of Trust Units. See "Risk Factors".

In the opinion of McCarthy Tétrault and Bull, Housser & Tupper, as at the date of this Prospectus the Trust Units are, subject to certain assumptions, qualified investments for trusts governed by registered retirement savings plans ("RRSPs"), registered retirement income funds ("RRIFs") and deferred profit sharing plans ("DPSPs") under the *Income Tax Act* (Canada) and will not be precluded as investments under certain other statutes. See "Eligibility for Investment".

The Trust Units will not be obligations of or interests in TimberWest or any person other than the Trust. The Trust is an open-ended limited purpose trust created under the laws of the Province of British Columbia which offers and sells its Trust Units to the public. The Trust is not a trust company and does not carry on or intend to carry on the business of a trust company. Accordingly, the Trust is not registered under any trust and loan company legislation. The Trust Units are not deposits within the meaning of the *Canada Deposit Insurance Corporations Act* and are not issued under the provisions of that Act or any other legislation.

	Price	Agent's Commission(2)	Net Proceeds(4)
Per Special Deposit Warrant			
First Instalment	$2.00	—	$2.00
Final Instalment	$8.00	$0.20	$7.80
Total Per Special Deposit Warrant(1)	$10.00	$0.20	$9.80
Per Trust Unit(3)	$10.00	—	$10.00
Total Offering	$335,379,500	$6,692,200	$328,687,300

Notes:
1. The Trust will not receive any cash proceeds from the issue of the Trust Units on the exercise of the Special Deposit Warrants.
2. The Agent's Commission is payable by TimberWest following the Acquisition Closing. No additional commission is payable to the Agent upon the exercise of the Special Deposit Warrants.
3. These Trust Units are to be subscribed for by the subsidiary of the Canadian chartered bank providing financing to TAL. No Agent's Commission is payable in connection with the issue of these Trust Units.
4. The expenses of this offering, estimated at $950,000, together with the Agent's Commission, will be paid by TimberWest following the Acquisition Closing.

Until May 1, 1997 the Trustees were directors and officers of the Agent and, accordingly the Trust was a "connected issuer" of the Agent. See "Plan of Distribution".

Certificates for Trust Units will be available for delivery upon exercise or deemed exercise of the Special Deposit Warrants. Certain legal matters relating to the Special Deposit Warrants and the Trust Units to be issued upon the exercise or deemed exercise of the Special Deposit Warrants will be passed upon, on behalf of the Trust and TAL Acquisition Ltd., by McCarthy Tétrault, and on behalf of the Agent, by Bull, Housser & Tupper.

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PROSPECTUS SUMMARY

The following summary is qualified by and should be read in conjunction with the more detailed information appearing elsewhere in this prospectus. Reference is made to "Glossary" for the meanings of certain defined terms.

TimberWest Forest Limited

Business of TimberWest: TimberWest operates exclusively in British Columbia in the logging and lumber segments of the forest industry. Following the Acquisition Closing, all of TimberWest's Continuing Operations will be conducted on the coast of British Columbia where TimberWest owns in fee simple approximately 210,000 hectares (520,000 acres) of private timberlands and two lumbermill complexes and has rights to Crown timber tenures, including two TFLs. TimberWest is engaged in the harvesting, processing and sale of logs and the sale of softwood lumber.

TimberWest's Private Timberlands and Crown timber tenures in respect of the Continuing Operations have a current annual harvest and AAC of approximately 2.4 million m^3 of timber. Unlike non-renewable natural resources, timber resources can be managed on a sustainable basis to yield a predictable and stable volume of timber. TimberWest's Continuing Operations include two lumbermill complexes located at Elk Falls and Cowichan, British Columbia, which, at capacity, consume approximately 900 mm^3 of logs annually. In 1996, 71% of TimberWest's lumber volume was shipped to Japan, 16% within Canada, 4% to Europe and 9% to other destinations. TimberWest also engages in log trading and marketing activities to realize the maximum value from its logs and to provide the optimal mix of logs suitable for its lumbermills.

The Private Timberlands: The Private Timberlands constitute the second largest holdings of private timberlands in British Columbia and are located on some of the Province's best growing sites. TimberWest's management believes that the sustainable yield for the Private Timberlands is approximately 1.1 million m^3 of timber per year under basic forest management, and that TimberWest will have an average annual harvest of approximately 1.0 million m^3 of timber from these lands. The total merchantable timber inventory on these lands is currently estimated to be 24.1 million m^3.

In 1996, approximately 19% of the timber harvested in coastal British Columbia was harvested from private timberlands, with the remaining 81% being harvested from Crown timber tenures. Timber harvested from private timberlands is not subject to stumpage charges and private landowners generally have greater flexibility to vary the level of harvest in response to changes in the market price of logs.

Higher Use Properties: TimberWest also owns approximately 5,100 hectares of fee simple land located in recreational areas or near expanding population centres on the east coast areas of Vancouver Island. These properties are suitable for a variety of real estate uses including residential and commercial developments. It is expected that TimberWest will be able to realize the value of these properties by sale, subject to approval by the British Columbia Forest Land Commission for removal of the properties from forest reserve status, for those properties which are categorized as such.

The Offering

The Offering: 33,537,950 Trust Units of TimberWest Timber Trust, of which 33,461,000 Trust Units are issuable upon exercise of previously issued Special Deposit Warrants.

Amount: $335,379,500.

Price: $10 per Trust Unit.

Proceeds: On March 27, 1997 the Trust received $65,322,000 as the First Instalment from the issue and sale of 32,661,000 Special Deposit Warrants, which amount is currently held in escrow by the Warrant Agent. The Final Instalment is payable on or before 12:00 noon (Vancouver time) on the business day prior to the Acquisition Closing. In addition, on March 21, 1997, $8,000,000 representing the First Instalment and the Final Instalment for 800,000 Special Deposit Warrants was received by the Trust and invested by the Trust in common shares and notes of TAL.

Use of Proceeds: The net proceeds to be received by the Trust from the sale of the Special Deposit Warrants and Trust Units are $332,879,500, after deducting the advisory fee of $2,500,000 payable to the Agent. The Trust will use these net proceeds to acquire the common shares of TAL and the Notes, which net proceeds, together with the proceeds of loans to be made to TAL by a Canadian chartered bank, will be used by TAL to acquire all the outstanding securities of TimberWest. See "The Acquisition of TimberWest" and "Use of Proceeds". Immediately prior to that acquisition, TimberWest will sell its Interior Operations. The Agent's Commission and the expenses of this offering will be paid by TimberWest following the Acquisition Closing.

Acquisition of TimberWest

The Acquisition: TAL has entered into agreements with TimberWest and with FCCL under which TAL is to acquire, directly or indirectly, all of the 30,640,708 issued shares of TimberWest for $22 per share, resulting in a total purchase price of $674.1 million. Immediately following the Acquisition Closing, TimberWest is to repay approximately $237.4 million of debt ($167.4 million of term debt and approximately $70 million of operating debt). At the same time that TAL entered into agreements with TimberWest and FCCL in respect of the shares of TimberWest, Slocan Forest Products Ltd. entered into agreements with TimberWest and FCCL to purchase the Interior Operations of TimberWest for a total consideration of approximately $250 million ($210 million of purchase consideration and approximately $40 million of operating debt, which is included in the $70 million of operating debt referred to above, to be repaid at the closing of this purchase). The transactions are subject to the fulfilment of a number of conditions. Neither the acquisition of the shares of TimberWest by TAL nor the sale of the Interior Operations will be completed unless both transactions are completed. See "The Acquisition of TimberWest".

Financing for the Acquisition: TAL will finance the acquisition of the issued shares of TimberWest with the net proceeds of this offering and with the proceeds of Loans under credit facilities aggregating approximately $355.4 million which TAL has obtained from a Canadian chartered bank and one of its subsidiaries. As part of the transactions to be completed in respect of the Acquisition, TAL and TimberWest will amalgamate. The continuing corporation, called "TimberWest Forest Limited", will have the proceeds from the sale of the Interior Operations available to it to repay the outstanding debt of TimberWest and other costs and expenses of the Acquisition, and the assets and properties of TimberWest will be available to secure the Loans.

See "Share and Loan Capital of TimberWest — Operating Loan, Term Loan, Bridge Loan and Senior Subordinated Bridge Loan".

TimberWest Timber Trust

The Trust: The Trust is an unincorporated open-ended limited purpose trust established under the laws of the province of British Columbia which has been created to hold all the TimberWest Shares and the Notes.

Trust Units:	Each Trust Unit represents an equal undivided beneficial interest in the assets of the Trust. Each Trust Unit is transferable, entitles the holder thereof to participate equally in distributions by the Trust and to one vote for each Trust Unit held at all meetings of Unitholders. Trust Units are not subject to future calls or assessments. See "Declaration of Trust and Description of Trust Units".
Directors of TimberWest:	The Declaration of Trust provides that, after the appointment of the initial directors of TimberWest, the Trustees will vote the shares of TimberWest held by the Trust to elect, as directors of TimberWest, those individuals approved from time to time by a majority vote of Unitholders. See "Management of TimberWest — Election of Directors".
Distribution Policy:	TimberWest's policy will be to distribute all of its available cash by way of dividends or return of capital on the TimberWest Shares and interest or principal repayments on the Notes, subject to TimberWest retaining such reasonable working capital reserves as may be considered appropriate by the Board of Directors of TimberWest. The amount of cash to be distributed annually per Trust Unit will be equal to a pro rata share of interest or principal and distribution of dividends or capital received by the Trust from TimberWest in the year less expenditures incurred by the Trust. Quarterly distributions are to be paid to Unitholders of record as of the last day of each calendar quarter on the 15th day of January, April, July and October. The amount of Distributable Cash for any quarterly period will reflect, in part, the business activity, including seasonality and market conditions, of TimberWest. Any dividends or other distributions paid by TimberWest to the Trust with respect to the net income of TimberWest for a fiscal year, in excess of the quarterly cash distributions made by TimberWest to the Trust in respect of the net income for such fiscal year, are expected to be distributed by the Trust annually to Unitholders of record on March 31 of each year, with the payment being made on or about April 15 of such year. The initial distribution is to be paid on October 15, 1997 to Unitholders of record on September 30, 1997. See "Declaration of Trust and Description of Trust Units — Cash Distributions".
Eligibility for Investment:	At the date of this prospectus, the Trust Units are, subject to certain assumptions, qualified investments for trusts governed by RRSPs, RRIFs and DPSPs under the *Income Tax Act* (Canada). The Trust Units will not be precluded as investments under certain other statutes. See "Eligibility for Investment".
Risk Factors:	Investment in the Trust Units is subject to a number of risks. The cash distributions to the Unitholders are completely dependent on the ability of TimberWest to pay its interest obligations under the Notes and to pay dividends and other distributions upon the TimberWest Shares. TimberWest's income will be earned from its timber harvesting and processing business, which is subject to a number of risks. See "Risk Factors".

Selected Financial Information

Operating Results of TimberWest's Continuing Operations

	Nine Months Ended March 31,		Year Ended June 30,		
	1997	1996	1996	1995	1994(1)
	(unaudited)				
	(dollars in millions, except sales volumes)				
Net Sales	$ 247.6	$ 220.2	$ 303.4	$ 396.7	$ 180.9
Operating Earnings	32.2	11.6	24.9	90.5	46.1
Net Earnings	24.9	8.9	16.4	64.2	25.4
EBITDA(2)	49.6	25.4	42.9	120.8	53.8
Capital Expenditures	7.4	27.0	31.6	32.0	17.8
Sales Volumes (unaudited)					
Lumber mmfbm	119.4	95.0	118.6	143.7	84.5
Logs mm^3	1,174.2	1,173.5	1,691.6	2,008.3	1,039.4

Notes:

(1) For the period December 16, 1993 to June 30, 1994, except capital expenditures, which are for the year.

(2) EBITDA is earnings before Financing Costs, Income Taxes, Depreciation, Depletion, Amortization and Discontinued Operations. EBITDA does not have an established meaning under generally accepted accounting principles, but has been included because management of TAL believes that it is an indicative measure of a company's operating performance and is generally used by investors to evaluate companies in the forest products industry. EBITDA should not be considered in isolation or as a substitute for measures of performance prepared in accordance with generally accepted accounting principles.

Selected Pro Forma Financial Information
(Unaudited)

	Nine Months Ended March 31, 1997	Year Ended June 30, 1996
	(dollars in millions)	
Net Sales	$247.6	$303.4
Operating Earnings	32.2	24.9
Net Earnings	●	●
Distributable Cash	●	●
Distributable Cash per Trust Unit	●	●

	As at March 31, 1997
Total Assets	$731.4
Term Loan	150.0
Bridge and Senior Subordinated Bridge Loan	175.4
Unit Holders' Equity	330.9

GLOSSARY

In this prospectus, 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 Crown lands or private lands within a TFL;

"**Acquisition**" means the acquisition of TimberWest and the other transactions described under "Acquisition of TimberWest";

"**Acquisition Closing**" means the completion of the Acquisition, which will not be earlier than May 30, 1997 and not later than June 30, 1997.

"**Administration Agreement**" means the agreement between TimberWest and the Trustees, for and on behalf of the Trust, to be entered into as of the date of the Acquisition Closing pursuant to which TimberWest will provide certain administrative services to the Trust;

"**Administrator**" means TimberWest in its capacity as administrator of the Trust pursuant to the Administration Agreement;

"**affiliate**" means an affiliate within the meaning of the *Securities Act* (British Columbia);

"**Agency Agreement**" means the agreement dated March 21, 1997 between the Trust, TAL and the Agent;

"**Agent**" means Goepel Shields & Partners Inc.;

"**Arrangement**" means the Plan of Arrangement referred to under "Acquisition of TimberWest";

"**associate**" means an associate within the meaning of the *Securities Act* (British Columbia);

"**business day**" means any day that is not a Saturday, Sunday or civic or statutory holiday in Vancouver, British Columbia;

"**Closing**" means the issue of the Trust Units upon exercise of the Special Deposit Warrants, which is expected to occur on or about June 17, 1997, but may occur on such other date, not later than June 30, 1997, as may be agreed between TAL, the Trust and the Agent;

"***Company Act***" means the *Company Act* (British Columbia);

"**Competing Offer**" means an unsolicited offer to effect an Extraordinary Business Combination to acquire, directly or indirectly, all of the shares of TimberWest, for a consideration per share of TimberWest having a value greater than the value to be paid by TAL for each share of TimberWest pursuant to the Acquisition; made available to all holders of shares of TimberWest; the financing of which is committed at least to the same extent as TAL's financing is then committed; with conditions no more beneficial, taken as a whole, to the person making the offer than those contained in the agreements for the benefit of TAL, and in respect of which the Board of Directors of TimberWest determines in good faith to recommend the approval of such offer to the holders of shares of TimberWest;

"**Continuing Operations**" means the business, operations and properties conducted, operated and owned by TimberWest following completion of the sale of the Interior Operations, consisting of TimberWest's Private Timberlands, Elk Falls and Cowichan lumbermills and related Crown timber tenures and the lumber shipment facility at Stuart Channel Wharves;

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

"**Declaration of Trust**" means the declaration of trust dated February 17, 1997 (as amended and restated on April 30, 1997) pursuant to which the Trust was created;

"**dimension lumber**" means lumber that is cut and planed to standard North American nominal sizes and lengths (2x4 inches through 2x12 inches in cross-section by 8 to 24 feet in length);

"**Distributable Cash**" means all amounts received by the Trust in respect of dividends or return of capital on the TimberWest Shares and interest or repayment of principal on the Notes, as the case may be, plus the income, if any, from other permitted investments of the Trust, less amounts that may be paid by the Trust in connection with any cash redemption of Trust Units and expenditures incurred by the Trust;

"**economic rotation**" means, with respect to a particular growing site, the number of years from the time a stand of trees is established for the average tree within the stand to reach the size which maximizes economic return through sales and manufacturing;

"**Extraordinary Business Combination**" means the acquisition or disposition, directly or indirectly, of any part of the outstanding shares of TimberWest or any sale of all or any substantial part of TimberWest's, or any subsidiary of TimberWest's assets, or any take-over bid, amalgamation, merger, reorganization, arrangement, recapitalization, liquidation or winding-up of or other business combination or similar transaction involving TimberWest, or any subsidiary of TimberWest, and any other person other than TAL;

"**FCCL**" means Fletcher Challenge Canada Limited, a British Columbia company;

"***Forest Act***" means the *Forest Act* (British Columbia);

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

"**Forest Renewal British Columbia**" is a British Columbia Crown corporation whose mandate is to plan and implement a regionally-equitable program of expenditures in order to renew the forest economy of British Columbia, enhance the productive capacity and environmental value of forest lands, create jobs, provide training for forest workers and strengthen communities;

"**harvest rotation**" means, with respect to a particular growing site, the number of years from the time a stand of trees is established to the time at which the stand is harvested;

"**hectare**" means a metric measure of area equivalent to 10,000 square metres or approximately 2.471 acres;

"**Higher Use Properties**" means property that TimberWest owns and which may have a higher value than its value as timberland; after Closing, the Higher Use Properties will initially consist of approximately 5,100 hectares;

"**Interior Operations**" means the Mackenzie Operations and the Williams Lake Operations;

"**Loans**" has the meaning set forth under "Share and Loan Capital of TimberWest — Operating Loan, Term Loan, Bridge Loan and Senior Subordinated Bridge Loan";

"**Mackenzie Operations**" means TimberWest's lumbermill complex located at Mackenzie, British Columbia along with associated woodlands operations and Crown timber tenures;

"**Management Plan**" means a comprehensive five-year plan prepared by a registered professional forester containing inventories and analyses of timber and non-timber resource values, strategies for management and protection of those values and calculation of the proposed timber harvest level;

"**m^3**" 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 which can be commercially recovered at the present time;

"**Ministry of Forests**" refers to the Ministry of Forests of British Columbia;

"**mm^3**" 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 which has been planed, finished and dried;

"**Note Indenture**" means the note indenture between TimberWest and The R-M Trust Company to be dated as of June 1, 1997, which will govern the terms of the Notes;

"**Notes**" means unsecured subordinated notes of TimberWest to be issued pursuant to the Note Indenture and "**Series A Notes**" means the ● % Series A Notes due June 30, 2027;

"**Plan of Arrangement**" means the plan of arrangement of TimberWest, TAL and other corporations pursuant to section 276 of the *Company Act* which provides for the amalgamation of TAL, TimberWest and such other corporations as set out in the plan of arrangement;

"**Private Timberlands**" means the 210,000 hectares (520,000 acres) of private timberland on Vancouver Island, British Columbia owned in fee simple by TimberWest;

“**Record Dates**” means March 31, June 30, September 30 and December 31 in each year, and such additional dates as may be fixed by the Trustees;

“**Silviculture Prescriptions**” are prescriptions prepared under the direction of a registered professional forester for an area of forest prior to harvesting, which set out the various resource values found in the forest, how such values are to be protected, how and when harvesting is to take place, and the targets and commitments made by the operator for renewing the forest;

“**Special Deposit Warrants**” means the warrants previously issued by the Trust pursuant to the Warrant Indenture;

“**Special Resolution**” means a resolution passed by a majority of not less than 66⅔% of the votes cast, either in person or by proxy, at a meeting of Unitholders called for the purpose of approving such resolution, or approved in writing by the holders of not less than 66⅔% of the Trust Units entitled to be voted on such resolution;

“**Structured Assessments**” are evaluations of the progress of the operations staff of TimberWest in implementing past forest practices audit action plans;

“**sustainable yield**” refers to the volume of timber that if harvested over time will not exceed the volume of incremental timber growth over the same period;

“**TAL**” means TAL Acquisition Ltd., a British Columbia company, all of the issued shares of which are owned by the Trust and which was created solely for the purpose of the Acquisition;

“**Tax Act**” means the *Income Tax Act* (Canada);

“**TFL**” means a tree farm licence, a form of timber tenure in British Columbia that includes Crown lands and often private lands or other tenures owned by the licence holder;

“**TFL 46**” means Tree Farm Licence No. 46, which is located primarily on the southwestern end of Vancouver Island;

“**TFL 47**” means Tree Farm Licence No. 47, which is located on eastern Vancouver Island, Johnstone Strait and the Queen Charlotte Islands, British Columbia;

“**TimberWest**” means TimberWest Forest Limited and, after the Acquisition Closing, the continuing corporation resulting from the amalgamation of TimberWest and TAL and one or more other corporations pursuant to the Plan of Arrangement;

“**TimberWest Shares**” means the common shares of TimberWest to be held by the Trust immediately following the Acquisition;

“**Trust**” means TimberWest Timber Trust, a trust established under the laws of British Columbia;

“**Trust Units**” means the units of the Trust, each unit representing an equal undivided beneficial interest in the Trust;

“**Trustees**” means the trustees of the Trust from time to time;

“**Unitholders**” means the holders from time to time of one or more Trust Units;

“**Warrant Agent**” means Montreal Trust Company of Canada in its capacity as warrant agent under the Special Deposit Warrant Indenture dated March 21, 1997 between the Trust and Montreal Trust Company of Canada;

“**Warrant Indenture**” means the Special Deposit Warrant Indenture dated as of March 21, 1997 between the Trust and the Warrant Agent;

“**Williams Lake Operations**” means TimberWest’s lumbermill complex located at Williams Lake, British Columbia along with associated woodlands operations and Crown timber tenures and the railway tie treatment plant located at Ashcroft, British Columbia.

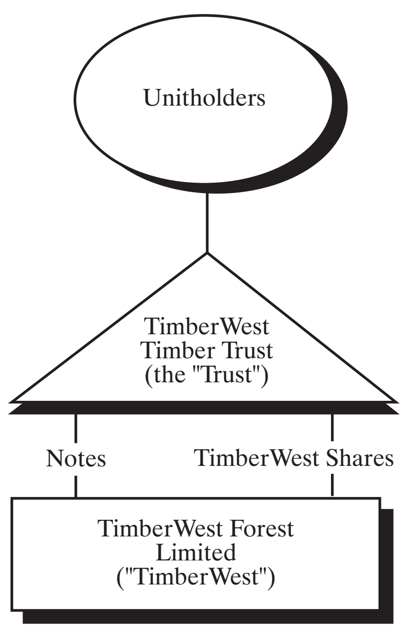
TIMBERWEST TIMBER TRUST

The TimberWest Timber Trust is an open-ended, limited purpose trust established under the laws of British Columbia pursuant to the Declaration of Trust. The Trust was originally called The Timber Income Fund. The Trust has been created to acquire all of the TimberWest Shares and the Notes. TimberWest operates exclusively in British Columbia in the logging and lumber segment of the forest industry. Following the Acquisition Closing, substantially all of TimberWest's Continuing Operations will be conducted on the coast of British Columbia where TimberWest owns in fee simple approximately 210,000 hectares (520,000 acres) of private timberlands and two lumbermill complexes and has rights to Crown timber tenures from the Province of British Columbia. TimberWest is engaged in the harvesting and sale of logs and the processing and sale of softwood lumber. Immediately prior to the completion of this offering, TimberWest will sell its operations and related Crown timber tenures located in the interior region of British Columbia. See "Acquisition of TimberWest" and "Business of TimberWest". The Trust's principal office is located at 2300 - 1055 West Georgia Street, Vancouver, British Columbia V6E 3P3.

The Trust will make payments of Distributable Cash, being all amounts received by the Trust in respect of dividends or return of capital on the TimberWest Shares and interest or repayment of principal on the Notes, as the case may be, less amounts that may be paid by the Trust in connection with any cash redemptions of Trust Units and expenditures incurred by the Trust. The amount of Distributable Cash for any quarterly period will reflect, in part, the business activity, including seasonality and market conditions, of TimberWest. Distributable Cash will be payable to Unitholders of record on the Record Dates and is to be paid on the 15th day after each Record Date, with the first such payment to be paid on October 15, 1997. Any dividends or other distributions paid by TimberWest to the Trust with respect to the net income of TimberWest for any fiscal year, in excess of the quarterly cash distributions made by TimberWest to the Trust in respect of the net income for such fiscal year, are expected to be distributed by the Trust annually to Unitholders of record on March 31 of each year, with the payment being made on or about April 15 of such year.

Structure of the Trust

The following chart illustrates the primary structural relationships between the Unitholders, the Trust and TimberWest upon completion of this offering.



THE ACQUISITION OF TIMBERWEST

The Trust will use the net proceeds of this offering to acquire an additional $ ● of shares and $ ● Series A Notes of TAL Acquisition Ltd. TAL has been incorporated specifically for the purpose of acquiring the issued shares of TimberWest. Immediately following the acquisition by TAL of all of the shares of TimberWest, TAL and TimberWest are to amalgamate to continue as one company under the *Company Act* under the name "TimberWest Forest Limited".

A number of transactions are contemplated in connection with the Acquisition, including the amalgamation of TAL and TimberWest. The effect of these transactions will be that TimberWest is to sell its Interior Operations to third parties and TAL is to acquire, directly or indirectly all of the 30,640,708 issued shares of TimberWest for total consideration of $674.1 million by paying $22 cash for each issued share of TimberWest. The transactions are subject to the fulfilment of a number of conditions, including the sale by TimberWest of the Interior Operations. The agreements relating to these transactions are described below. Neither the acquisition of the shares of TimberWest nor the sale of the Interior Operations will be completed unless both transactions are completed.

The Acquisition

On March 7, 1997, TAL entered into initial agreements with TimberWest and FCCL and affiliates of FCCL for the acquisition of all of the 30,640,708 issued shares of TimberWest for $22 cash for each issued share of TimberWest. The initial agreements were subject to definitive agreements being concluded between the parties by March 23, 1997. On March 23, 1997, the parties entered into the definitive agreements in respect of the acquisition of all of the issued shares of TimberWest.

Pursuant to the Plan of Arrangement, each issued share of TimberWest (being 14,820,300 shares of TimberWest) (other than the shares of TimberWest held by FCCL and its affiliates) is to be acquired by TAL for $22 cash. Pursuant to an agreement with FCCL, TAL is to acquire all the shares of a holding company which will be owned by an affiliate of FCCL and which will hold the shares of TimberWest (being 15,820,408 shares of TimberWest) currently held directly or indirectly by FCCL for a purchase price equal to $22 for each share of TimberWest held by the holding company. Dissenting Shareholders have the right to apply to the Supreme Court of British Columbia to establish the value of their shares of TimberWest in accordance with the Plan of Arrangement. At the time of the Acquisition Closing, $167.4 million of term debt and approximately $70 million in respect of operating debt (of which approximately $40 million is in respect of the Interior Operations and is to be paid as part of the sale of the Interior Operations referred to below) is to be repaid by TimberWest to retire TimberWest's indebtedness to FCCL.

Funding of the Acquisition

The aggregate amount required to be paid by TAL to acquire the shares of TimberWest is $674.1 million. The aggregate amount of debt to be repaid by TimberWest at the time of the Acquisition Closing is approximately $237.4 million (made up of $167.4 million of term debt and approximately $70 million of operating debt). Before entering into initial agreements with FCCL and TimberWest on March 7, 1997, TAL obtained commitments for the purchase of the Special Deposit Warrants and obtained commitments from a Canadian chartered bank for four debt facilities aggregating approximately $355.4 million, being an operating loan in the amount of up to $30 million (of which, only a portion will be used to fund the Acquisition), a term loan in the amount of $150 million, a bridge loan in the amount of $160 million and from a subsidiary of such bank for a senior subordinated bridge loan in the amount of approximately $15.4 million. The bridge loan and the senior subordinated bridge loan are to be repaid within nine months after the Closing, and are expected to be repaid from a further issuance of trust units by the Trust, the net proceeds of which will be invested in additional Notes and TimberWest Shares to be issued by TimberWest to the Trust. See "Share and Loan Capital of TimberWest — Operating Loan, Term Loan, Bridge Loan and Senior Subordinated Bridge Loan".

As part of the Acquisition, TAL is to amalgamate with TimberWest and thereby become entitled to TimberWest's cash resources, which, at that time will include the proceeds of sale of the Interior Operations (approximately $250 million, comprised of $210 million of purchase price consideration and approximately $40 million to repay operating debt). As a result of the amalgamation, the debt facilities obtained by TAL will be secured against the assets of TimberWest.

Termination of the Purchase Agreements

The agreements between TAL and TimberWest and between TAL and FCCL may be terminated at any time prior to the Acquisition Closing: (i) by agreement in writing executed by TAL, TimberWest and FCCL; (ii) upon notice by any party to the others if the Acquisition has not been completed by June 30, 1997; (iii) if the Plan of Arrangement does not receive the requisite approval of the holders of the shares of TimberWest and the approval of the Supreme Court of British Columbia; (iv) if it becomes apparent that one or more of the conditions for the benefit of a party cannot be satisfied and will not be waived by that party by June 30, 1997 (see "Conditions to the Acquisition"); (v) upon notice to TAL and FCCL by TimberWest, if TimberWest or FCCL has received a Competing Offer and TAL does not agree to increase the consideration to be given to holders of the shares of TimberWest to an amount having a value equal to or greater than the consideration offered under the Competing Offer; or (vi) upon notice to TimberWest and FCCL by TAL, or upon notice to TAL by TimberWest and FCCL, if there has been a breach by the party to whom notice is given of any material agreement or covenant of that party or if the representations and warranties of that party become untrue. If the agreements are terminated, they shall, except for obligations of confidentiality and to pay fees and expenses, become void.

The completion of the Acquisition is to occur immediately following the completion of the sale of the Interior Operations.

The Sale of the Interior Operations

Pursuant to an agreement entered into by TimberWest and FCCL with Slocan Forest Products Ltd. ("Slocan") at the same time as the agreements were entered into by TAL with TimberWest and FCCL, Slocan agreed to purchase the Interior Operations for a total consideration of approximately $250 million, consisting of $210 million of purchase price consideration and the repayment of approximately $40 million of operating loans of TimberWest in respect of the Interior Operations.

Slocan has entered into an agreement with Riverside Forest Products Limited ("Riverside") whereby Slocan has assigned to Riverside its right to acquire the Williams Lake Operations. Riverside is to pay TimberWest $50 million plus the amount of working capital of the Williams Lake Operations at the Acquisition Closing (estimated to be approximately $10 million) and retire operating debt in respect of the Williams Lake Operations of approximately $3 million.

Conditions to the Acquisition

Completion of the Acquisition and the sale of the Mackenzie Operations to Slocan and the sale of the Williams Lake Operations to either Slocan or Riverside are subject to the satisfaction or waiver of conditions precedent in addition to the approval of the Plan of Arrangement. None of the transactions will be completed unless all are completed. A favourable vote of not less than 75% of the votes cast at a meeting of shareholders of TimberWest and the approval of the Supreme Court of British Columbia is required for the approval of the Plan of Arrangement. The Plan of Arrangement was approved by the required majority of TimberWest shareholders on May ● , 1997 and by the Supreme Court of British Columbia on May ● , 1997. To become effective, a certified copy of the order of the Supreme Court of British Columbia approving the Plan of Arrangement must be accepted for filing by the Registrar of Companies (British Columbia).

The principal conditions to the obligations of each of the parties to complete the transactions described above are: (i) the receipt of all consents, approvals or orders as may be necessary in connection with the Acquisition under applicable legislation on terms not materially adverse to TAL, TimberWest or Slocan; (ii) no legal proceedings being threatened or taken having the effect of ceasing trading in the shares of TimberWest or the securities to be issued by the Trust or which otherwise imposes limitations on the acquisition by TAL of the shares of TimberWest; and (iii) obtaining the consent of the Ontario Securities Commission and the Quebec Securities Commission to the release, from escrow, of escrowed TimberWest Shares owned by FCCL or its affiliates (which consent TimberWest expects will be granted).

The principal approval required pursuant to applicable legislation is the consent of the Minister of Forests under the *Forest Act* for the changes of control and transfers contemplated by the Acquisition and the sale of the Mackenzie Operations to Slocan and the sale of the Williams Lake Operations to either Slocan or Riverside. The agreements are also conditional upon the Minister of Forests providing confirmation as to certain related matters. On ● , 1997, the Minister of Forests gave his consent in principle to such changes in control and transfers and confirmed certain related matters. The consent of the Minister of Forests will be given at the Acquisition Closing.

Additional conditions to the obligations of TAL and Slocan to complete the transactions described above are: (i) the directors of TimberWest not withdrawing their recommendation that the shareholders of TimberWest approve the Acquisition; (ii) since December 31, 1996 until the Acquisition Closing, there shall not have been any change, or the discovery of any previously undisclosed fact, which has been or will be materially adverse to, and there shall not have been any change of law enacted or proposed which: (a) in the case of TAL, in TAL's reasonable opinion, has been or is materially adverse to, TimberWest; or (b) in the case of Slocan, in Slocan's reasonable opinion, has been or is materially adverse to the Interior Operations; and (iii) there shall not have occurred, developed or come into effect or existence any event or financial occurrence of national or international consequence or any law or other occurrence of any nature whatsoever that is or could reasonably be expected to be materially adverse to the financial market conditions in Canada or the United States generally. For the purposes of the condition referred to in (b) above, a change in general business conditions or any change in the markets or prices for TimberWest's products will not constitute a materially adverse change.

The Trust will give written notice of the completion of the Acquisition Closing to registered holders of Special Deposit Warrants as soon as reasonably practicable following the Acquisition Closing.

BUSINESS OF TIMBERWEST

TimberWest Forest Limited and TAL

TimberWest 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. The registered and principal office of TimberWest is located at 2300-1055 West Georgia Street, Vancouver, British Columbia, V6E 3P3. Prior to December, 1993, the assets of TimberWest were owned by FCCL and its subsidiaries and TimberWest did not carry on any active business. TAL was incorporated under the *Company Act* on January 31, 1997 under the name 535950 British Columbia Ltd. and changed its name to TAL Acquisition Ltd. on February 27, 1997.

The business and operations of TimberWest described in this prospectus are the Continuing Operations.

Overview of TimberWest's Business

The business of TimberWest has been owned and managed for over 80 years by TimberWest, or by FCCL, Crown Forest Industries Limited and their predecessors. TimberWest is one of Canada's largest companies operating exclusively in the solid wood segment of the forest industry. All of TimberWest's Continuing Operations are conducted on the coast of British Columbia, where TimberWest owns, in fee simple, approximately 210,000 hectares (520,000 acres) of private timberlands, two lumbermill complexes, and has rights to substantial Crown timber tenures. TimberWest also owns approximately 5,100 hectares (13,000 acres) of Higher Use Properties. TimberWest engages in log marketing and trading activities to realize the maximum value from its logs and to provide the optimal mix of logs suitable for its lumbermills.

TimberWest's business strategy 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 log export markets; and (3) optimizing the product mix from small and second growth logs by manufacturing, in TimberWest's lumber mills, high quality structural building components for the Asia-Pacific residential housing market. In addition, TimberWest enhances and realizes the value of its Higher Use Properties through property sales or exchanges.

Access to long-term, sustainable, high-quality timber resources is an important competitive element in the solid wood segment of the forest industry. Through intensive silviculture and modern forest management practices, TimberWest is committed to maintaining, protecting and improving the productivity of its forest resource. TimberWest's Private Timberlands are the second largest holdings of private timberlands in British Columbia. At current harvest levels of approximately 1.0 million m^3, the Private Timberlands account for 42% of TimberWest's total log harvest. No stumpage is payable on logs harvested from private timberlands. Ownership of these lands provides a strategic hedge against possible reductions of AAC on Crown timber tenures in British Columbia. TimberWest's coastal Crown timber tenures have been the subject of AAC reductions and are unlikely to be reduced further in the immediate future. The Crown timber tenures provide harvest volumes of approximately 1.4 million m^3 of logs that are consumed in TimberWest's lumbermills or sold to other lumbermills in British Columbia. TimberWest's total current annual log harvest is approximately 2.4 million m^3.

Sawlogs are sold primarily to a number of lumbermill customers in British Columbia, including certain volumes that TimberWest is obligated, under contract to FCCL, to make available to operators of lumbermills who provide wood chips to FCCL for use in FCCL's pulpmills. In addition, as opportunities arise, a certain volume of high quality sawlogs, harvested from the Private Timberlands, are exported in higher value markets. TimberWest's entire pulplog production is committed to FCCL under various long term supply arrangements. All log sales transactions under the various agreements with FCCL are at market value at the time of sale.

TimberWest's two lumbermill complexes on Vancouver Island, at capacity, consume approximately 900 mm^3 of logs annually. The total current annual lumber and chip production capacity of its lumbermills is 185 mmfbm and 325 mm^3, respectively. Lumber is shipped largely to offshore markets, primarily Japan, but also to other markets such as Belgium and Australia. In fiscal 1996, TimberWest's lumbermills produced 125.2 mmfbm of lumber and 254 mm^3 of wood chips. Lumber sales in 1996 were predominantly hemlock and Douglas fir specialty and dimension lumber, of which, by volume, 71% was shipped to Japan, 16% within Canada, 4% to Europe and 9% to other destinations. All of TimberWest's wood chip production is committed to FCCL under various long term supply arrangements at market value at the time of supply.

The Forest Industry

Global Supply and Demand

Global timber demand is expected to rise rapidly with population growth and economic development. The Food and Agricultural Organization of the United Nations estimated world production in 1993 and developed the following forecasts for consumption of industrial roundwood, which comprises all commercial timber other than fuel wood.

Industrial Roundwood

	Production	Consumption		
	1993	1993	2010	Increase
		(millions of m^3)		
U.S.	402.5	377.9	521.2	38%
Canada	173.1	174.5	212.6	22%
Asia	269.6	320.2	540.2	69%
Europe	253.2	266.0	384.0	44%
Former USSR	132.4	119.8	292.2	144%
America's (excluding Canada & the U.S.)	131.0	123.5	198.1	60%
Africa	59.5	55.0	85.6	56%
Oceania	36.9	22.9	44.0	92%
World	1,458.2	1,459.8	2,277.9	56%

Source: Food and Agricultural Organization of the United Nations, 1995.

British Columbia Forest Industry

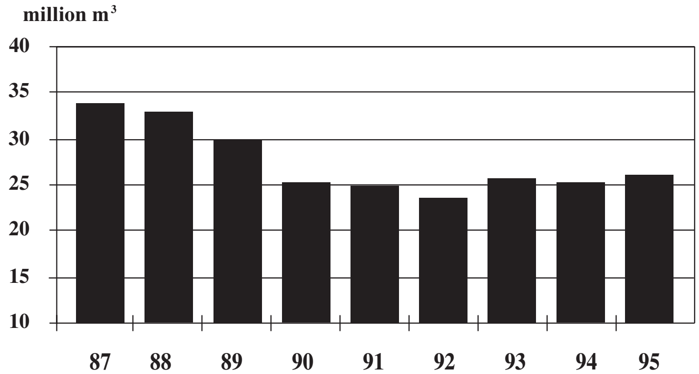
The British Columbia forest industry is one of the leading forest products regions of the world with lumber shipments averaging 14 billion board feet per year and pulp and paper shipments averaging 7 million tonnes per year, supported by an annual timber harvest of approximately 75 million cubic meters. British Columbia is distinguished by two major forest regions, coast and interior, which are differentiated by climate, terrain and forest type and have given rise to two distinctly different segments of the forest industry. Approximately one-third of British Columbia's timber harvest is from the coastal region.

British Columbia Coastal Forest Industry

Harvest Levels

In contrast to the British Columbia interior forest industry, the British Columbia coastal forest industry is distinguished by a wet maritime climate, rugged topography and a variety of high value coastal forest species with highly productive growing sites. The coastal harvest averaged approximately 32 million m^3 per year between 1987 and 1989, and 25 million m^3 per year between 1990 and 1995. The harvest level has declined over time in large part due to significant areas of productive forest land being set aside for park areas.

British Columbia Coastal Harvest Levels



Source: Price Waterhouse, The Forest Industry in British Columbia, published surveys.

Consumption Levels and Conversion Capacity

The average coastal industry consumption of sawlogs and pulplogs is estimated to be approximately 25 million m^3 based on recent historical mill operating rates, as illustrated in the following table.

Primary Converting Facility (coastal)	Coastal Log Usage (thousands m^3)	Number of Converting Facilities	Operating Rate
Lumber (Sawlogs)	17,358	74	3,700 mmfbm
Veneer/Plywood Mills (Peeler Logs)	550	2	200 mmsf
Shake & Shingle Mills (Cedar Shingle Logs)	1,260	48	1.6 mm squares
Woodrooms and Chipping Plants (Pulplogs)	6,160	20	3.6 mm tonnes(1)
Total Log Usage	25,328	144	

(1) Total pulp and paper operating rate for nine pulp and paper mills.

Source: Analysis of Woodflow in the Vancouver Forest Region, Final Report, Simons Reid Collins/Pierce Lefebre Consulting, April 22, 1996.

While lumbermills directly consume the majority of coastal log production, the coastal pulp and paper industry is also an important consumer of pulplogs and wood by-products from lumbermills and other wood converting facilities.

The coastal pulp and paper industry consumes approximately 15.6 million m^3 of pulp fibre annually, based on operations which are at 88% of rated capacity. Of the total pulp fibre supply, approximately 6.1 million m^3 of chips are produced by lumbermills within the region. The coastal pulp and paper industry imports approximately 3.2 million m^3 of chips from outside the coastal region to meet total fibre requirements.

Log Markets

Logs harvested on the coast are consumed in the logging companies' conversion facilities or are sold in the Vancouver log market in order to supply conversion facilities that do not have sufficient harvest to meet their current needs. The Vancouver log market is considered to be one of the most active and competitive bidding markets for timber supply in Canada because of the large number of mills and timber processing facilities in the area. In 1995, approximately 6.2 million m^3 of logs, or approximately 24% of the total coastal harvest, were sold in the Vancouver log market.

Logs are not generally exported from British Columbia due to export restrictions associated with Crown timber tenures. Private landowners have the flexibility to export logs under certain circumstances (see "Forest Policy and Regulations — Log Export Regulations"). In 1995, approximately 0.3 million m^3 of sawlogs were exported from British Columbia. Export markets have historically provided attractive premiums for high quality sawlogs over prices available in the domestic log market.

Domestic log market sales, although priced in Canadian dollars, are sensitive to end product prices of both the pulp and paper and the solid wood industries. Primary markets for production from coastal lumbermills and the pulp and paper industry for 1995 are illustrated in the following table.

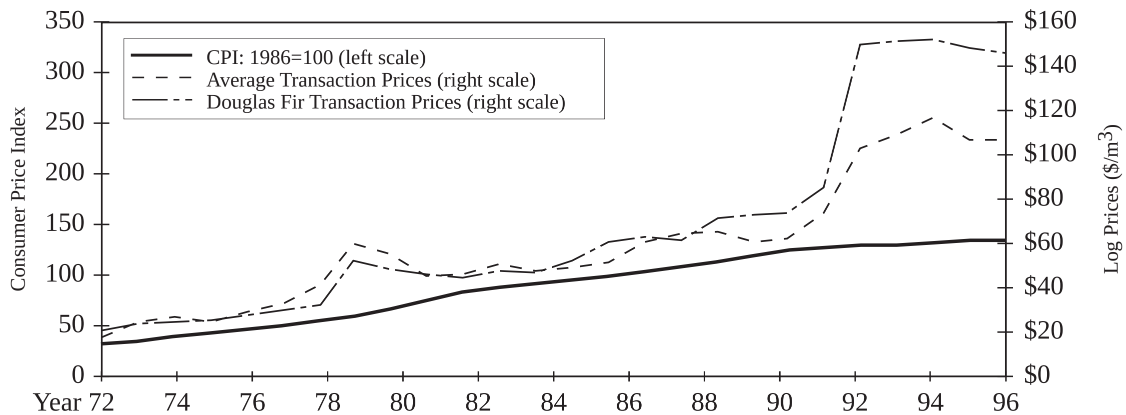
Volume of End Product Sales By Location of Purchaser	Coastal Lumbermills	British Columbia Pulp Mills
Canada	23.9%	4.8%
United States	18.8%	10.1%
Japan	47.7%	19.3%
Europe	—	37.7%
All other Markets	9.6%	28.1%
	100%	100%

Source: Price Waterhouse — The Forest Industry in British Columbia, 1995

Because more British Columbia coastal sawlogs are converted to lumber for the Japanese market than for any other market, the Japanese lumber market has historically had a significant effect in determining prices for coastal sawlogs in British Columbia.

Over the past 25 years average log transaction prices for all species sold on the Vancouver log market have recorded a compound annual price increase of 2.5% in real terms. Douglas fir log prices increased at a real rate of 3.2% over the same period.

Vancouver Log Market
Transaction Prices vs. Inflation



Source: Statistics Canada and Council of Forest Industries of British Columbia.

Lumber Production and Markets

British Columbia coastal lumbermills have produced, on average, 3.5 billion board feet of lumber each year during the last five years. Lumber production from lumbermills in the coastal region of British Columbia represents approximately 25% of British Columbia's total production.

British Columbia coastal lumbermills produce a wide variety of both specialty and structural products that are largely oriented towards offshore markets. Product prices are significantly higher than those sold by lumbermills located in the interior of British Columbia, reflecting not only the markets served, but also the value and diversity of the forest resource supporting the coastal forest industry.

The following table illustrates the species diversity of British Columbia coastal lumber production for the periods indicated:

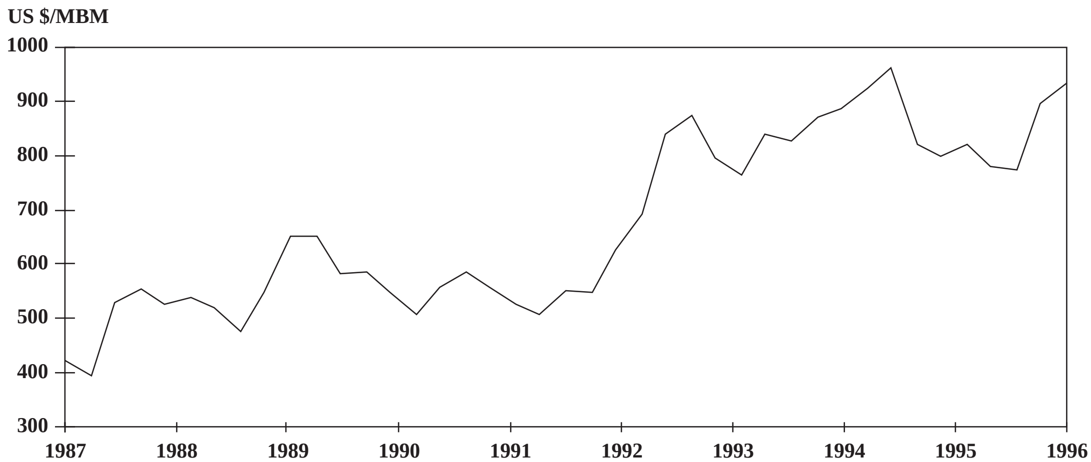
Species	1995	1994	1993	1992	1991
			(in mmfbm)		
Douglas Fir	517	416	460	478	449
Western Red Cedar	828	875	834	809	880
Yellow Cedar	138	152	135	160	144
Hemlock/Balsam	1,711	2,107	2,035	1,936	1,837
Sitka Spruce	82	92	80	88	117
Other	37	39	41	45	40
Total	3,313	3,681	3,585	3,516	3,465

Source: Statistics Canada

Approximately 30% of the British Columbia coastal lumber production is further processed by an active secondary manufacturing sector involving approximately 565 plants. Most value-added products produced by this sector are lumber specialties such as window frames, mouldings and doors, but also include engineered wood products and millwork products.

Japan is one of the major markets for the lumber produced by British Columbia coastal operations. The following chart illustrates the escalation of Japanese lumber prices over recent years.

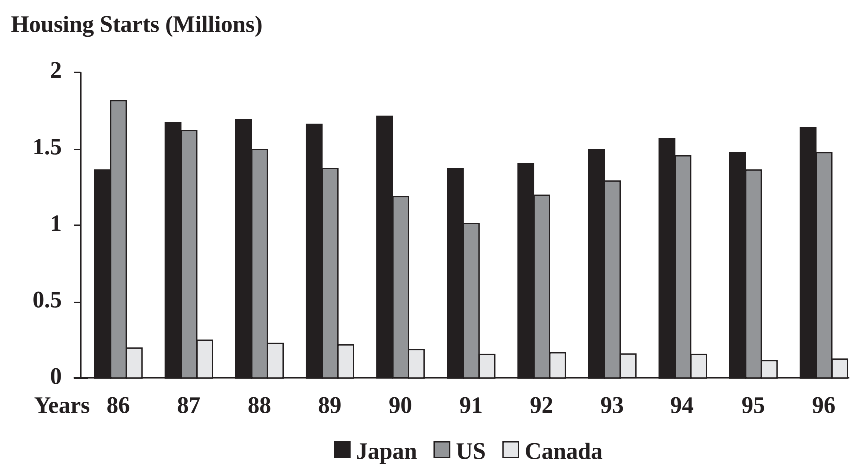
Japanese Lumber Prices
90 x 90 Squares



Source: Clearvision Associates, October, 1995.

The following chart illustrates housing starts in Japan, the United States and Canada.

Housing Start Trends



Source: Clearvision Associates, October, 1995.

TimberWest's Log Harvesting and Sales

Overview of Forest Resources

The following table shows the harvest level from the Private Timberlands as well as the AAC and annual cut from TimberWest's Crown timber tenures in its Continuing Operations as of March 31, 1997 after giving effect to the Acquisition and the consequential five percent reduction in AAC for the replaceable Crown timber tenures pursuant to the *Forest Act*:

	Harvest Level or AAC (mm^3)	% of Total
Tree Farm Licences(1)	920	39
Forest Licences	93	4
Private Timberlands(2)	1,000	42
Timber Licences(3)	346	15
Total	2,359	100

(1) Excludes 150 mm^3 of annual harvest from Private Timberlands and 281 mm^3 of AAC from Timber Licences, both of which are within the boundaries of Tree Farm Licences.

(2) Includes 150 mm^3 of annual harvest within the boundaries of the Tree Farm Licences.

(3) Includes 281 mm^3 of AAC within the boundaries of Tree Farm Licences.

TimberWest's long-term species distribution by volume on its Private Timberlands and Crown timber tenures is estimated to be approximately 45% hemlock/balsam, 41% Douglas fir, 6% Western red cedar and 8% cypress, Sitka spruce and other.

In 1996, approximately 81% of the coastal timber harvested in British Columbia was harvested from Crown timber tenures. The Provincial Government charges stumpage for this timber and in recent years stumpage charges have increased sharply. No stumpage is payable on logs harvested from private timberlands. As the cost of producing timber from Crown timber tenures has risen because of increases in stumpage and other costs, the value of timber on private timberlands has increased accordingly. In addition, the volume of coniferous timber available under Crown timber tenures in coastal British Columbia has been reduced from an allowable annual cut of 21.3 million m^3 in 1992 to 19.3 million m^3 in 1996. Significant reductions have also occurred on United States Federal lands in the Pacific Northwest region of the United States. This has led to timber demand in excess of available supply which, in turn, has contributed to increases in timber prices.

The Private Timberlands

History and Attributes of Private Timberlands

TimberWest owns in fee simple approximately 210,000 hectares of private timberlands located on Vancouver Island, British Columbia. The majority of the land that comprises the Private Timberlands was originally granted in 1887 to the Esquimalt and Nanaimo Railway Company in aid of railway construction on the east coast of Vancouver Island. Subsequently, large areas of this grant were sold by the railway company to timber operators and settlers. No royalty was reserved on the timber on these lands, but the land is subject to the same taxation regime as other Crown-granted land in its class. In 1996, property taxes on the Private Timberlands were $3.2 million, or approximately $3.84 per m^3 harvested. TimberWest's predecessors acquired portions of the original grant either directly from the railway company or from other owners for the purpose of harvesting the old growth timber. They also purchased bare land or regenerated lands with a view to increasing long term timber supply.

In contrast to non-renewable natural resources, such as minerals and oil and gas, timber resources can be managed on a sustainable basis to yield a predictable and stable volume of timber. Continuous biological growth allows for flexibility in timing the harvesting of timber in order to take advantage of market conditions. The Private Timberlands have been managed through intensive forest management practices including tree improvement, fertilization and commercial thinning with a view to maximizing timber volumes, with average harvest rotation periods of 45-65 years on most sites. The average annual rate of growth of timber for all of the Private Timberlands is 5.4 m^3 per hectare, which is among the highest in Canada.

According to the records of the Private Forest Landowners Association of British Columbia, there are three major holders of private timberland on the British Columbia coast. MacMillan Bloedel Limited holds approximately 256,000 hectares of private timberland. TimberWest has the second largest holdings, with approximately 210,000 hectares. Pacific Forest Products Limited holds approximately 126,000 hectares. The only other major holder of private timberland in British Columbia is Crestbrook Forest Industries Ltd., which holds approximately 104,000 hectares in the southeastern interior of the province. None of the other owners of private timberland in British Columbia individually holds more than 60,000 hectares.

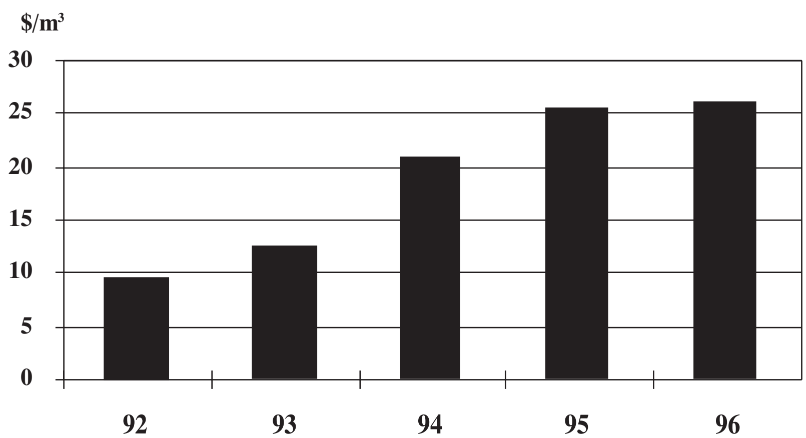
Approximately 63,000 hectares, or 30% of the Private Timberlands are located within TFLs 46 and 47. Tree farm licenses were created in British Columbia in the late 1940s through the combination of certain Crown and private timberlands. TimberWest's predecessors, along with other private timberland owners, contributed a certain portion of their private timberlands in order to establish TFLs in the province. Harvest levels and forest practices on private lands inside a TFL are subject to the same rules and regulations as Crown-owned land inside a TFL. No stumpage is paid, however, from private timberland harvests within a TFL. The harvest level of the TFL, including the private lands within a TFL, is determined from time to time by the Chief Forester of British Columbia, having regard to the long term sustainability of the TFL and taking into consideration economic, social and environmental values. The aggregate AAC for the Courtney and Nanaimo Lakes Management Units within TFL 47 was increased in December 1996 from 30,000 m^3 to 140,000 m^3 as a result of the increased maturity of second growth timber. The Chief Forester's AAC determination for TFL 46 in December 1996 made no significant change to the AAC for the portion of Private Timberlands within TFL 46. There is no government control of the level of harvest from the approximately 147,000 hectares of Private Timberlands that are not located within TFLs.

Benefits of Private Timberlands

Private timberlands provide a number of additional advantages over Crown timber tenures in British Columbia, including the absence of stumpage fees, as well as greater ability to target selected customers and greater flexibility in harvest volumes and harvest timing.

• ***Absence of Stumpage and Royalty Costs.*** Stumpage and royalty costs for logs harvested from Crown lands have risen significantly over the last few years. For the coastal region of British Columbia, stumpage and royalty costs have risen 155% from 1992 to 1996, as indicated by the following chart:

British Columbia Stumpage and Royalty Costs
Coast Logging



Source: Price Waterhouse, The Forest Industry in British Columbia, 1995, published surveys and KPMG-Perrin-Simons Logging Cost Study for 1996.

Note:

(1) 1994 rates did not reflect the full impact of Forest Renewal British Columbia initiated by the Province in May 1994.

During 1996, stumpage costs for coastal British Columbia averaged $25.84 per m^3. As a result, the Private Timberlands have a significant value differential and will provide a strategic hedge against further increases in stumpage and royalty costs.

• ***Flexibility in Customer Selection and Export Markets.*** The Private Timberlands outside of TFLs are not tied to any particular manufacturing facility and as a result, TimberWest has the ability to direct logs from these timberlands to selected customers, subject to existing fibre supply agreements. In addition, logs from Crown timber tenures are not generally exported from British Columbia due to the restrictions associated with Crown timber tenures. TimberWest has the ability to export certain volumes of high quality logs from its Private Timberlands outside of TFLs to the higher value export log markets.

• ***Harvest Flexibility.*** Although Crown tenures have a certain amount of volume flexibility on an annual basis, Private Timberlands outside of TFLs afford full flexibility with regard to volumes harvested and selection of harvest areas. As a result, the Private Timberlands outside of TFLs can be managed to better match harvest levels and specific timber stands with current market conditions and the needs of specific customers. In addition, these timberlands enable experimentation with alternative harvest systems and methodologies, which may provide lower cost solutions or harvest plans that more effectively balance economic returns with community interests.

Inventory and Sustainability.

The Private Timberlands are located on some of the best growing sites in British Columbia. It is expected that TimberWest's average annual harvest from the Private Timberlands, including the harvest from private lands within TFLs, will be approximately 1.0 million m^3. The total merchantable timber inventory on the Private Timberlands is currently estimated to be 24.1 million m^3, consisting of 14.5 million m^3 old growth timber and 9.6 million m^3 of second growth timber. The species distribution by volume is approximately 63% Douglas fir, 33% hemlock/balsam and 4% other species. The age distribution on the Private Timberlands is such that increasing amounts of second growth Douglas fir will become merchantable timber in the next ten years. Most of this maturing second growth timber is in the 40 to 60 year age class, located in lower elevation areas which have existing road systems and can be logged at relatively lower cost due to the moderate harvesting terrain.

TimberWest's management believes that the biological yield for the Private Timberlands is approximately 1.1 million m^3 per year under basic forest management practices. Under normal conditions, TimberWest expects that its average annual harvest will be approximately 1.0 million m^3 of timber.

Biological growth in excess of the planned harvest level permits a long term harvest of 1.0 million m^3 per year on the Private Timberlands. The Private Timberlands are among the most productive growing sites in British Columbia, with an overall average annual growth rate of 5.4 m^3 per hectare compared to the provincial average of 2.3 m^3 per hectare. Economic rotations range between 45 and 65 years on most of the Private Timberlands with an overall average harvest rotation of approximately 60 years. Productivity may be further enhanced by increasing intensive forest management practices such as genetic improvement and forest fertilization.

Of the 210,000 hectares that make up the Private Timberlands, approximately 33,000 hectares are either non-productive, inoperable or uneconomic to harvest at this time. As logging technologies change, and in particular if log prices increase, portions of these uneconomic areas may be reclassified as economic, which would increase the total volume available for harvest. The 5,100 hectares that make up the Higher Use Properties are not included in the Private Timberlands.

Second Growth

TimberWest's Private Timberlands provide 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 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. During 1996, approximately 45% of TimberWest's harvest from the Private Timberlands was derived from second growth timber. It is expected that volumes of merchantable second growth will increase as stands move into harvestable age classes of 45 to 65 years old. This is illustrated by the following table showing current age class distribution of the Private Timberlands.

Age Class	**Private Timberlands Total**	**Volume**[(1)]
(years)	(thousands of hectares)	(thousands of m^3)
0-9	14.4	11
10-19	19.2	43
20-29	29.1	1,758
30-39	32.1	6,511
40-49	30.4	8,584
50-59	17.2	5,586
60-69	8.4	2,589
70-79	2.9	821
80-119	2.8	1,069
120+	20.2	14,492
Total Productive	176.7	41,464
Non-productive or Inoperable	33.3	7,996
Total Timberland	210.0	49,460

Note:

(1) These volumes include timber that is not currently merchantable. The current inventory of merchantable timber is estimated to be 24.1 million m^3.

Douglas fir is the predominant species on the Private Timberlands, comprising approximately 61% of the total area. Douglas fir is a preferred species because it has a high degree of acceptance in export markets and trades at a premium over other species. Douglas fir standard sawlogs have experienced price premiums over hemlock standard sawlogs of 19% and 49% for 1995 and 1996, respectively. Future volumes of Douglas fir will increase in proportion to the total harvest as second growth stands reach maturity. For the past 40 years, after the original harvest the areas best suited to grow Douglas fir were intentionally replanted with Douglas fir to produce higher yields. The proportion of Douglas fir available for harvest on the Private Timberlands greatly exceeds the average coastal British Columbia harvest of Douglas fir, which in 1995 was approximately 16% of the total British Columbia coastal harvest by volume.

• ***Report.*** ● , a forestry consulting firm, was retained to conduct an independent review to confirm the timber inventory, level of long term harvest and other forestry information provided by TimberWest relating to the Private Timberlands. ● , based in ● , ● has over ● years of experience in studying all aspects of forestry and forestland management. With in excess of ● employees, the firm's work includes timber management planning, forest inventory, timber and timberland valuation, land acquisition, timber harvest scheduling, intensive management practices and other related forestland management matters.

It is ● 's opinion that the existence of a mature timber inventory of approximately 24.1 million m^3 on the Private Timberlands, as stated by TimberWest, appears reasonable and that a long term annual harvest of 1.0 million m^3 is achievable. This opinion is based on ● 's independent analysis of TimberWest's inventory database and other data provided by TimberWest and an aerial tour of the Private Timberlands. With respect to long term harvest, ● 's opinion is derived from modelling a 100-year period where several scenarios all resulted in an average annual harvest slightly in excess of ● m^3. This result does not include increased growth from specific intensive forest management practices, such as fertilization and use of improved planting stock, used by TimberWest.

Crown Timber Tenures

Approximately 95% of all forest lands in the province of British Columbia are Crown land. Under the *Forest Act* and the Forest Practices Code, the Ministry of Forests 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 the Crown timber tenures provide license holders with long term access to mature timber through renewable licences. The standards of management for these areas are set by government and licensee operations are guided by Forest Development Plans approved by the Ministry of Forests.

The long-term species distribution, by volume, on TimberWest's Crown timber tenures is estimated to be approximately 61% hemlock/balsam, 16% Douglas fir, 12% western red cedar, 11% cypress, Sitka spruce and other. As with its Private Timberlands, TimberWest's Crown timber tenures provide a greater proportion of Douglas fir than the average coastal British Columbia harvest. In addition, 31% of TimberWest's production from Crown tenures is from second growth timber stands. These stands provide similar benefits as second growth stands located within Private Timberlands, including established road systems and lower harvesting costs because of generally moderate harvesting terrain.

TimberWest's Crown timber tenures currently provide an annual harvest of approximately 1.4 million m^3. These tenures consist of two TFLs, three Forest Licences ("FLs") and a number of Timber Licences ("TLs"). A stumpage fee is charged by the Crown on timber harvested from Crown lands.

Tree Farm Licences

TFLs are area-based tenures which are granted for a term of 25 years and are replaceable after five years for a further 25-year term subject to satisfactory performance by the licensee of its cutting and reforesting obligations as determined by the Ministry of Forests. The licensee undertakes to manage the area of Crown timberlands, and includes licensees' private timberlands and timber licences within the boundaries of the TFL, to produce an annual harvest on a sustained yield basis. TimberWest holds two TFLs (TFLs 46 and 47).

Timberwest has accepted an offer made by the provincial Chief Forester to renew TFL 46 effective July 1, 1997 for a period of 25 years. TFL 47 was renewed effective March 1, 1995 for a term of 25 years.

Forest Licences

Crown timberlands which have not been designated as TFLs are organized into Timber Supply Areas ("TSA"). FLs are then issued within each TSA with the overall harvest for each TSA managed by the Ministry of Forests on a sustained yield basis.

FLs are volume-based tenures which authorize a specified volume of timber to be cut within a specified TSA. FLs have a term of 15 years and are generally replaceable every five years for a further 15 years subject to satisfactory performance by the licensee of its cutting and reforestation obligations as determined by the Ministry of Forests. TimberWest holds three replaceable FLs with current expiry dates of 2008.

Timber Licences

TimberWest holds TLs both within and outside of TFLs 46 and 47. TLs are area-based tenures and are located either within a TSA or a TFL. Historically, a royalty fee was charged by the Crown on timber harvested on TLs. However, in April 1995, the British Columbia provincial government eliminated the royalty for TLs and replaced it with stumpage, which was initially set at 60% of regular stumpage on other Crown timber tenures and is to move to 100% in equal steps over six years. The current rate is 73% of regular stumpage.

TLs 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. TLs outside of TFLs revert to the Crown after harvest and are harvested in accordance with an operating plan and/or forest development plan approved by the Ministry of Forests. The timing of harvesting from these tenures is subject to Ministry of Forests forest practices guidelines, but is otherwise at the discretion of the holder. These licences are for terms varying from five years to 35 years.

Forest Management

Forest Management Strategy

Except for TLs outside of TFLs, all of the timberlands on which TimberWest conducts harvesting operations are managed on a sustained yield basis. TimberWest's TFLs have been actively managed for almost 40 years. Forest management is based on an ecological classification system which guides such forest management activities as selection of harvesting method, site preparation, species used in regeneration and fertilization.

Forest management operations on TFLs are guided by Management Plans which are submitted every five years for approval by the Chief Forester of the Ministry of Forests. 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 has developed and maintains a forest practices audit system which assesses the forest management performance of each forest operation. The audit system requires an assessment of selected operating areas and submission of a report to senior management. Remedial action plans are prepared as required and follow-up is monitored. TimberWest has designed an environmental management system which incorporates the forest practices audits and facility environmental audits. During calendar 1996, formal internal audits of forest practices and facilities were undertaken for TimberWest's Continuing Operations. The Forest Practices Code also sets standards of performance for forest practices, establishes planning procedures, and sets a range of activity-specific penalties. TimberWest has completed initial training for all of its forest operations personnel and has implemented a program that delivers additional support training. TimberWest is a signatory to the Forest Alliance of British Columbia's "Principles of Sustainable Forestry" and is committed to ensuring that its operations conform to these principles. One component of the internal forest practices audits assesses ongoing compliance with these principles.

TimberWest is responsible for reforestation on all lands harvested. Successful regeneration through a mix of natural regeneration and tree planting must be achieved on all Crown lands within a specified time period and at a prescribed density level. The regeneration commitment ensures that newly established stands of suitable tree species reach a free-growing state unimpeded by competition from other plants. TimberWest accrues for its future silviculture obligation on Crown lands at the time of harvest.

TimberWest and its predecessors have also been committed to ensuring forest regeneration of the Private Timberlands by following a structured forest management program. Site specific silviculture programs are developed before harvesting to ensure prompt forest regeneration after harvesting. TimberWest has used a variety of intensive silviculture techniques such as genetic improvement and forest fertilization to increase productivity on the Private Timberlands. In 1994 and 1995, TimberWest completed late rotation fertilization on nearly 5,000 hectares of maturing Douglas fir to enhance growth rates. TimberWest also uses genetically improved seedlings in the reforestation of the Private Timberlands to increase future yields. The superior seeds used in this program are produced in TimberWest's Mt. Newton seed orchard, located at Saanichton on Vancouver Island which produces seed for both the Private Timberlands and the Crown timber tenures. The Mt. Newton seed orchard also supports research into new biotechnology techniques to accelerate the use of genetically enhanced seedlings. Seed is also produced for and sold to other tenure holders.

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. Additional fire protection on the Private Timberlands is provided by a fleet of two large water bombers and four specially equipped helicopters. These aircraft are operated by a company jointly owned by TimberWest and two other forest product companies. Losses through fire over the last several decades have been minimal.

Harvesting

TimberWest's coastal harvesting operations extend from the Queen Charlotte Islands to southern Vancouver Island, with six major harvesting operations. A wide range of equipment, including road building and maintenance equipment, crew transportation vehicles, timber falling equipment, grapple and long line yarding systems, harvesters, log loaders and log trucks, is utilized to carry out harvesting operations. Approximately 56% of TimberWest's annual log harvest is carried out by its own logging crews and the balance is conducted by independent contractors. All harvesting on Crown timber tenures and the Private Timberlands within TFLs must meet the standards of the Forest Practices Code for forest renewal and protection of forest values.

The majority of TimberWest's harvesting activities are conducted using conventional logging systems, such as grapple yarders, however helicopters and long-line yarding systems are used to access otherwise inaccessible, high value timber, or to minimize environmental impact. In addition to clearcutting and commercial thinnings, innovative harvest systems are being utilized on certain second growth stands on both Crown and private lands.

Future harvest areas on Crown timber tenures and private timberlands located within a TFL are identified by the licensee three to five years in advance of harvesting. Silviculture Prescriptions are completed for each proposed harvest block, which detail harvest methods, protection of other resources, and proposed reforestation activities and goals. These prescriptions are advertised to seek public comment and are then submitted to the Ministry of Forests for approval. After considering public concerns and ensuring protection of other resources, the Ministry of Forests issues cutting permits for individual areas. These permits provide the legal authority to harvest the timber subject to the specific conditions attached to each permit. Harvest plans for TLs are guided by schedules approved by the Ministry of Forests which ensure that reforestation takes place and that other forest land values are protected.

The following table shows TimberWest's log production from its Continuing Operations by timber tenure for the periods indicated:

	Log Production (mm^3)		
	Nine Months Ended March 31, 1997	Year Ended June 30, 1996	Year Ended June 30, 1995
Tree Farm Licences(1)	482	694	925
Private Timberlands(2)	735	827	702
Forest Licences	93	158	69
Timber Licences(3)	187	329	348
Total	1,497	2,008	2,044

(1) Excludes harvest from private lands of 86 mm^3 for the nine months ended March 31, 1997, 24 mm^3 in fiscal 1996 and 62 mm^3 in fiscal 1995 and harvest from Timber Licences of 138 mm^3 for the nine months ended March 31, 1997, 201 mm^3 in fiscal 1996 and 193 mm^3 in fiscal 1995.

(2) Includes harvest from private lands within the boundaries of TFLs of 86 mm^3 for the nine months ended March 31, 1997, 24 mm^3 in fiscal 1996 and 62 mm^3 in fiscal 1995.

(3) Includes harvest from Timber Licences within the boundaries of TFLs of 138 mm^3 for the nine months ended March 31, 1997, 201 mm^3 in fiscal 1996 and 193 mm^3 in fiscal 1995.

Log Marketing and Trading

TimberWest engages in extensive log marketing and trading 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 lumbermills consume approximately 900,000 m^3 of logs each year, of which approximately 50% is provided by TimberWest's log harvest. The balance is purchased from external sources in order to provide a mix of logs that is best suited to the products manufactured by the lumbermills. Accordingly, with a combined AAC from Crown timber tenures of 1.4 million m^3 and an annual harvest level of 1.0 million m^3 from the Private Timberlands, approximately 1.9 million m^3 of logs are available for sale, including a combination of sawlogs and pulplogs. Included in TimberWest's log sales are commitments of approximately 800 mm^3 in aggregate, which will be sold to FCCL and FCCL's chip suppliers, pursuant to supply agreements with FCCL. See "Fibre Agreements". The following table summarizes TimberWest's log sales for the periods indicated.

	Nine Months Ended March 31, 1997	Year Ended June 30, 1996	Year Ended June 30, 1995
Log Sales ($ millions)	154.2	209.0	277.7
Log Sales (mm^3)	1,174.2	1,691.6	2,008.3

Log Exports

Timber harvested from the Private Timberlands can be exported, subject to compliance with federal export requirements. TimberWest will explore every opportunity to take advantage of the higher priced export log market. See "Forest Policy and Regulations — Log Export Regulations". Historical premiums realized from log exports by TimberWest are significant. Revenues earned by TimberWest from domestic log sales from its Private Timberlands and Crown timber tenures and from export log sales from its Private Timberlands for the periods indicated were as follows:

	Nine Months Ended March 31	Fiscal Years Ended June 30		Period from December 16, 1993 to June 30, 1994
	1997	1996	1995	
Domestic				
mm^3	1,139.9	1,668.6	1,993.0	1,033.5
$(millions)	143.8	199.1	268.3	119.7
$/$m^3$(1)	126	119	135	116
Export				
mm^3	34.3	23.0	15.3	5.9
$(millions)	10.4	9.9	9.4	3.1
$/$m^3$(1)	303	431	610	535
Total				
mm^3	1,174.2	1,691.6	2,008.3	1,039.4
$(millions)	154.2	209.0	277.7	122.8
$/$m^3$(1)	131	124	138	118

Note:

(1) Prices per m^3 for domestic and export sales are not directly comparable due to species and grade differences.

Fibre Agreements

In 1993, TimberWest entered into several agreements with FCCL relating to wood fibre supply. These are long term contracts that specify the volumes to be supplied at prevailing market prices.

All wood chips produced by TimberWest's existing sawmills and, subject to prior rights of third parties, sawmills acquired in the future, and substantially all pulplogs harvested or acquired by TimberWest are sold to FCCL under the Chip and Pulplog Supply Agreement. This agreement contains minimum volume commitments for each of TimberWest's existing operations, 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 FCCL at prevailing Vancouver log market prices.

The Chip and Pulplog Supply Agreement has an indefinite term, subject to FCCL's right to terminate the agreement on 24 months' notice. While the agreement is in effect, TimberWest is restricted from disposing of more than 5% in aggregate of the Private Timberlands outside of TFLs and more than 1% of any lands within TFLs in any one year. Any other sale by TimberWest of its harvesting rights or its Private Timberlands can only be completed if the purchaser assumes a proportionate share of TimberWest's obligations to FCCL under the agreement.

TimberWest sells to FCCL, under the Residual Fibre Supply Agreement, all surplus sawdust, shavings and hog fuel produced at TimberWest's facilities that meet specifications, subject to existing commitments, at the prevailing coast market price.

The Timber Harvesting Management Agreement provides for TimberWest to sell to designated wood chip suppliers of FCCL a maximum volume of sawlogs each year. Sawlogs will be sold to these suppliers at prevailing Vancouver log market prices. This agreement can be terminated by FCCL on 12 months' notice to TimberWest.

TimberWest, pursuant to a Pulplog Agency Agreement, acts as FCCL's exclusive agent for purchases of pulplogs in coastal British Columbia. TimberWest has agreed not to purchase pulplogs for any other buyer in British Columbia. The agreement is perpetual but may be terminated by FCCL on 12 months' notice or by TimberWest after the third anniversary, on 24 months' notice. TimberWest receives a fee per cubic metre for pulplogs purchased under the agreement.

Under a Pulplog Services Agreement, TimberWest provides pulplog services to FCCL related to transportation, handling and storage. TimberWest is reimbursed by FCCL for expenses incurred and is paid an administration fee. This agreement remains in force while TimberWest is obligated under the Chip and Pulplog Supply Agreement.

During fiscal 1996, $38.2 million or 13% of the sales of TimberWest from its Continuing Operations were transacted with FCCL and its affiliates, who, prior to the Acquisition Closing, were related parties to TimberWest by virtue of their controlling interest in TimberWest.

Forest Policy and Regulations

Allowable Annual Cut ("AAC") Determination

The AAC for TFLs and TSAs is determined by the Chief Forester of the Ministry of Forests and reflects timber conditions, regional and local economic and social interests, and environmental considerations. Harvest levels by the tenure holder in any one year may vary up to 50% above or below the designated AAC as long as the average annual cut over the five year period is within 10% of the specified AAC for the period. Overcuts of more than 10% at the end of the five years result in a reduction in AAC in the next five-year period and may be subject to penalties. Undercuts of more than 10% may result in a reduction of AAC, or in the case of TFLs, an AAC reduction or reduction of area of land subject to the licence. Relief from the AAC reduction may be granted if the undercut has resulted from circumstances beyond the control of the licence holder. The Ministry of Forests may also dispose of the undercut of timber if relief is not granted.

Amendments to the *Forest Act* in 1992 and 1995 required the Chief Forester to determine an AAC for every TFL and TSA in the province by the end of 1996, and every five years thereafter. Accordingly, the AACs for TFL 46 and TFL 47 were recalculated and the Chief Forester, in December 1996, determined the new AACs. The AAC of TFL 46 was reduced from 558,860 m^3 to 535,000 m^3 and the AAC for TFL 47 was increased from 711,000 m^3 to 865,000 m^3.

The 4.3% decrease of the AAC for TFL 46 reflects the inclusion of the Walbran and Hitchie Creek areas of TFL 46 within the Carmanah Walbran and Hitchie Creek Provincial Parks. TimberWest intends to seek compensation under the *Forest Act* from the British Columbia Government for the decrease in the AAC of TFL 46 caused by inclusion of portions of TFL 46 within these parklands. Further, a reduction of approximately 2,400 hectares, representing approximately 12,000 m^3 of AAC, will occur within TFL 47, representing the impact on timberlands of the province's 1995 Vancouver Island Land Use Plan. No compensation can be claimed when this park removal occurs. The Mid-Coast Protected Areas Strategy process is currently underway and one additional small removal from TFL 47 for park purposes may occur over the next several years.

The provincial Chief Forester has also completed a review of AACs for each TSA. As a result of this process, the aggregate AACs for the FLs held by TimberWest were decreased by approximately 15,000 m^3. The logging moratorium of the past several years, imposed by the British Columbia provincial government while park selections were being made, has contributed to an undercut situation for TFL 46, which is currently into the last year of its five-year cut control period. Since the undercut resulted from circumstances beyond the control of TimberWest, application has been made to the Ministry of Forests and relief from these cut controls is expected to be granted.

As a result of the acquisition and change of control of TimberWest, the AAC from its TFLs (excluding the Private Timberlands within TFLs) and its FLs will be reduced by 5%, as prescribed by the *Forest Act*. This reduction has been reflected in the table shown on page 20 and is not expected to have a significant impact on TimberWest's logging operations. Timber Licenses are not subject to a 5% reduction, but instead under the *Forest Act* there is a requirement that a 5% tax be paid to the government upon giving consent to a transfer or change of control of TLs, based on the fair value of the timber remaining on the TLs. The fair value of the timber remaining upon Timberland's TLs has not yet been determined.

Stumpage Charges

The British Columbia provincial government periodically establishes the fees to be paid for the right to harvest timber in the province's forests. Timber harvested from Crown timber tenures is subject to stumpage at the time of harvest. Stumpage rates are established for each site and species harvested and are charged for timber harvested on TFLs and FLs based on the amount of timber scaled and the stumpage rates then in effect and on TLs based upon an escalating proportion of regular stumpage. Total stumpage charges (and royalties for part of 1995) incurred by TimberWest in respect of its Continuing Operations were approximately $28.0 million in fiscal 1996 and $33.0 million in fiscal 1995. Increases in stumpage for 1994 and 1995 were generally attributable to the Forest Renewal British Columbia stumpage levy.

Reforestation

Reforestation is the responsibility of TimberWest on 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. Regeneration of all logged areas on Crown lands and private lands within TFLs is audited by Ministry of Forests staff. TimberWest's reforestation programs for the Private Timberlands outside of TFLs are subject to internal audits.

Road Deactivation

TimberWest has been very active in environmental protection on its Crown timber tenures and Private Timberlands, particularly in projects to stabilize watercourses and deactivate old logging roads. A risk rating has been assigned by TimberWest to old roads and deactivation operations are underway according to a prioritized schedule for treatment. TimberWest will continue with this program but future spending is not expected to be as high as in prior years because most of the highest risk areas have already been treated by TimberWest. Spending by TimberWest for road deactivation on the Continuing Operations for the fiscal years 1995 and 1996, and the nine months ended March 31, 1997, was $6.5 million, $3.6 million, and $1.5 million, respectively. The cost of road deactivation on the Crown timber tenures is funded by Forest Renewal British Columbia and work has been underway for the past several years, and will be continued subject to the availability of Forest Renewal British Columbia funding.

TFL Management Plans

Forest management operations on TFLs are guided by Management Plans, which are submitted every five years for Ministry of Forests' approval. 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. Ministry of Forests' policy requires integrated management and protection of the full range of forest values. Draft plans are prepared by licensees and referred to relevant provincial government agencies and to the federal Department of Fisheries and Oceans. Advertised viewings of proposed plans are required in communities near licence areas for the purpose of seeking public comment. Aboriginal interests are also considered in the preparation of the final plan that is submitted to the Chief Forester of British Columbia for final review and approval.

TimberWest has approved Management Plans for TFLs 46 and 47 for the period December 1, 1996 to November 30, 2001.

Forest Practices Code

The Forest Practices Code, which was implemented in June 1995, sets standards of performance for forest practices, establishes planning procedures, and sets a range of activity-specific penalties for non-performance. Currently, the Forest Practices Code applies to Crown lands and private lands within TFLs. The Forest Practices Code also contains provisions permitting the promulgation of regulations with respect to forest practices on private lands outside of a TFL. Currently, no such regulations exist. TimberWest expects that some standards for forest practices will be developed through dialogue between government and owners of privately managed forest land. TimberWest is currently in substantial compliance with the Forest Practices Code on its TFLs and other Crown timber tenures.

Log Export Regulations

Provincial log export regulations minimize opportunities for companies to export logs profitably from Crown timber tenures, such as FLs and TFLs, including any private lands within a TFL. A provincial export tax equal to the difference between the export selling price and the domestic selling price applies to all log exports, creating, in practical economic terms, a constraint on log exports from Crown tenures.

Logs from most private lands outside a TFL (including the Private Timberlands) are not subject to provincial export regulations, but are subject to federal export regulations. All export timber must be advertised for local consumption and may be exported only if it is surplus to domestic requirements as indicated by the absence of fair market value offers (based on current domestic prices) from domestic sawmills. This requirement generally restricts the type of logs exported from private lands to those of a very high price and quality. Cedar is not exportable under federal regulations. There is no provincial or federal export tax on profit made from logs exported from private lands that are located outside a TFL.

Assessment Act and Forest Land Reserve Act

The *Forest Land Reserve Act* has established a Forest Land Commission with the mandate to protect the productive capacity of Forest Reserve land including “Managed Forests”, which are private forest lands as classified by the British Columbia Assessment Authority pursuant to the British Columbia *Assessment Act* (Forest Land) Regulation. This classification provides a preferential tax rate to these lands. The Private Timberlands and portions of the Higher Use Properties are all classified as “Managed Forests”. The owner of such land must undertake to manage the forest lands in accordance with a forest management plan which requires reforesting the land to certain specifications. The “Managed Forest” classification may be cancelled if the owner fails to comply with its undertakings set out in the forest management plan. TimberWest has received approval for its forest management plans for the Private Timberlands classified as “Managed Forests” and is in compliance with plan requirements.

The objective of the Forest Land Commission is to maintain “Managed Forests” under forest production and permission of the Commission is required before any lands may be withdrawn from Managed Forests status for other uses. While the Private Timberlands are subject to these requirements, expansion pressures from numerous municipalities are expected to support land withdrawal applications to the Forest Land Commission should TimberWest consider it appropriate to make such applications with respect to any of the Higher Use Properties. If approval is granted, TimberWest will have to pay a recapture charge of up to 6% of the difference between the fair market value of the land and the forest land value.

Environment and Land Use Issues

Environmental standards on TimberWest’s Crown timber tenures are established principally under the Forest Practices Code. The British Columbia Ministry of Forests and the British Columbia Ministry of Environment, Lands and Parks are responsible for monitoring performance under the Code. The British Columbia Forest Practices Board is required to undertake audits of government and tenure holder performance and to report the findings publicly.

On the Private Timberlands outside of the TFLs, TimberWest is responsible for establishing performance standards for environmental protection, and to ensure compliance with various provincial legislation, including the *Water Act*, the *Pesticide Control Act*, the *Wildlife Act* and the federal *Fisheries Act*. The Forest Practices Code contains provisions enabling application of portions of the Code to private lands. TimberWest and other owners of private timberlands have proposed a results-based performance system for the purpose of protecting the key environmental values of water quality, fisheries habitat, soil productivity and critical wildlife habitat, which includes a commitment to forest renewal. This proposal was made in 1995 and has received support because it protects owners' rights to manage land and freedom to innovate while addressing government goals for environmental protection.

Portions of the Private Timberlands are adjacent to the expanding urban developments on the east coast of Vancouver Island. While those properties now affected by municipal development plans are included in the Higher Use Properties, forest management strategies on other lands are conducted in a manner which is sensitive to the concerns of local interests and neighbouring owners. Alternate forest practices are employed in these areas, including partial harvest systems and sensitive harvest block layout.

Completion of the British Columbia government's land use plan for Vancouver Island includes acquisition through purchase or trade of several areas of private lands which would then be added to the provincial parks system. The Divers/Rossiter area of the Private Timberlands adjacent to Strathcona Park and small portions of private land in the Nanaimo Lakes and San Juan areas have been identified for inclusion in the protected areas. TimberWest has agreed to negotiations to identify values for compensation, and discussions have commenced with the British Columbia government.

Aboriginal Issues

The British Columbia provincial government requires that the management and working plans developed for approval by the British Columbia government in respect of TFLs and FLs must take into account and not infringe on aboriginal rights.

First Nations and aboriginal bands have claimed aboriginal title and rights over substantial portions of British Columbia, including areas where the Private Timberlands are situated. Government policy requires parties entering into the claims negotiation process administered by the British Columbia Treaty Commission to agree that the transfer of private lands will not form part of any settlement, unless the owner of the private lands agrees to the sale thereof. Should treaty negotiations result in the transfer of ownership of portions of Crown timber tenures held by TimberWest to aboriginal bands, the British Columbia government has indicated that it will provide compensation.

TimberWest's Lumber Manufacturing and Sales

Manufacturing

TimberWest manufactures and markets a wide range of lumber products in its Continuing Operations. By-products of the manufacturing process, in the form of chips, sawdust and hog fuel, are an important source of raw materials for pulp and paper mills.

The following table indicates annual lumber and wood chip capacity for TimberWest's lumbermills as at December 31, 1996:

	Lumber Annual Capacity	Wood Chips Annual Capacity
	(mmfbm)	(mm^3)
Elk Falls Lumbermill	110	225
Cowichan Lumbermill	75	100
Total	185	325

Elk Falls Operations

The Elk Falls operations, located at Campbell River, include a small-log sawmill, an integrated chipping facility, a planermill and dry kilns. The lumbermill consumes small diameter logs either harvested from TimberWest's logging operations, or traded or purchased specifically for this operation.

In fiscal 1996, the mill completed a $12.4 million upgrade which improved lumber values and accommodated recent changes to quality requirements in the market place without reducing production capacities. The first phase included the installation of a double length infeed system with true-shape log scanning that maximizes lumber recovery by more accurately scanning and positioning the log so that optimal cutting patterns are achieved. The second phase of the project included the installation of a new 65-bin sorter system and the upgrading of the trimmer scanner. This allows the mill to handle a higher piece count as well as produce more varied product sizes. Subject to cutting programs and size tolerances, this upgrade maintains annual lumber capacity, on a two-shift basis, at 110 mmfbm and wood chip capacity at 225 mm^3. In fiscal 1995, two new optimizing edgers were installed at a cost of $4.7 million.

Most of the lumber produced at the Elk Falls operation is exported to Japan for use in traditional Japanese housing. Traditional housing accounts for approximately 550,000 housing units annually or 40% of total Japanese housing starts and represents 80% of total wood-based housing. An increasing amount of the mill's production is being manufactured and sold as finished product in the Japanese market. Production from the Elk Falls operation has been targeted to specialty lumber grades in the Japanese market where market conditions are more stable and provide improved margins over commodity grades in the North American market. All of the residual by-products produced by Elk Falls are sold to FCCL for use at its Elk Falls pulp and paper mill.

During the fiscal year ended June 30, 1996, 87% of Elk Falls' lumber production was shipped to Japan, 10% within Canada, 1% to the United States and 2% to other countries. Lumber is sent by barge to Stuart Channel Wharves, TimberWest's lumber transshipment operation located near Crofton on Vancouver Island, where it is loaded onto deep sea vessels.

The lumber and wood chip production volumes for the Elk Falls lumbermill for the periods indicated were as follows:

	Nine Months Ended March 31, 1997	Year Ended June 30, 1996(1)	Year Ended June 30, 1995(2)
Lumber (mmfbm)	70.2	69.0	82.6
Wood chips (mm^3)	152.4	175	221

(1) Production volumes for fiscal 1996 were negatively affected by three weeks of chip-related production curtailments and by two weeks for the installation of new equipment as part of a capital upgrade project.

(2) Production volumes for fiscal 1995 were negatively affected by a seven-week strike at the Elk Falls lumbermill.

Cowichan Operations

The Cowichan operations, located at Youbou adjacent to TFL 46, include a large-log line, a small-log line, a planermill and dry kilns. Operating two shifts per day in either of the small-log or large-log lines, annual capacity is 75 mmfbm of lumber and 100 mm^3 of wood chips. Sawdust, chips and chip fines are sold to FCCL's pulp and paper mills, while bark and other wood waste is sent to FCCL's Crofton pulp and paper mill for use in its steam plant operation.

The lumber and wood chip production volumes for the Cowichan operations for the periods indicated were as follows:

	Nine Months Ended March 31, 1997	Year Ended June 30, 1996(1)	Year Ended June 30, 1995
Lumber (mmfbm)	53.0	56.2	52.4
Wood chips (mm^3)	83.2	79	83

(1) Production volumes for fiscal 1996 were negatively affected by eight weeks of chip-related production curtailments.

The Cowichan operations' hemlock lumber product focus is primarily toward the Japanese traditional housing segment. Cowichan produces finished structural components in posts, ground sills, wall studs and floor joists manufactured to Japanese size and quality requirements. Complementing this core program are kiln dried clear-grade products for further remanufacturing into interior finishing materials and window components for traditional Japanese homes. Cowichan's Douglas fir products are focused on structural products for housing in Belgium, Australia and Japan and to specialty window products and interior finishing materials for housing in Japan and Italy.

During the fiscal year ended June 30, 1996, 50% of Cowichan's lumber production was shipped to Japan, 24% within Canada, and 26% to Europe and other countries. Lumber is shipped by truck to Stuart Channel Wharves, and loaded onto deep sea vessels for shipment to customers.

Lumber Marketing

TimberWest's lumber marketing group is responsible for the marketing, market research and product development of all lumber products from TimberWest's lumbermills, which are marketed primarily in Japan and Canada. In Japan, lumber production is sold to importers and housing manufacturing companies through TimberWest's wholly-owned subsidiary, TimberWest Japan K.K. In Canada, lumber production is sold primarily to specialty lumber manufacturers whose products are primarily oriented towards industrial end-users in North America, Japan and Europe. In the United Kingdom, a distributor acts as an agent for direct forward contract sales. Other offshore markets are served through independent sales agents. TimberWest sells products directly to buyers in Belgium, France and Australia.

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.

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.

The revenues by market for lumber produced by TimberWest from its Continuing Operations for the periods indicated were as follows:

		Market Distribution of Lumber				
	Sales	**Japan**	**United States**	**Canada**	**Europe**	**Other**
	($ million)					
Nine Months Ended March 31, 1997	83.3	78.4%	1.8%	11.6%	6.3%	1.9%
Year Ended June 30, 1996	76.1	76.2%	1.6%	10.0%	6.5%	5.7%
Year Ended June 30, 1995	101.8	82.6%	0.8%	10.8%	3.1%	2.7%

TimberWest markets its lumber to a broad range of customers. TimberWest's strategy, however is to market to those customers where a strategic relationship can be formed, and as a result, the top ten customers represent approximately 80% of TimberWest's total lumber sales.

Softwood Lumber Quotas. During 1996, TimberWest received its quota allocation under the United States/ Canada Softwood Lumber Agreement. The allocations to Elk Falls and Cowichan lumbermills are sufficient to meet the United States export demand for the products from these two mills. Given that more than 98% of lumber produced in these lumbermills is sold in Japan, Europe and elsewhere outside of the United States, the softwood lumber quota has little impact on these mills.

In addition, the majority of lumber produced on the British Columbia coast is for markets other than the United States, which means that TimberWest's log trading business with other coastal producers is largely unaffected by the quota as well.

Human Resources

At March 31, 1997, TimberWest employed 1,284 active salaried and hourly employees in respect of its Continuing Operations at the following locations:

Locations	Salaried	Hourly	Total
Elk Falls operations	22	174	196
Cowichan operations	15	205	220
Logging operations	115	676	791
Vancouver office	77	—	77
Total	229	1,055	1,284

In December 1996, TimberWest restructured its coastal logging operations and consolidated its two Vancouver Island regions into a single coastal logging group. Staff jobs on Vancouver Island and in the corporate office will be reduced by approximately 50 positions as a result of this reorganization, some of which has been reflected in the staffing levels identified above.

IWA-Canada is the certified bargaining agent for TimberWest's hourly employees at the Cowichan lumbermill and logging operations. Labour agreements with IWA-Canada expire on June 14, 1997.

The Communications, Energy and Paperworkers Union ("CEP") is the certified bargaining agent for hourly employees at the Elk Falls lumbermill. The collective agreement with the CEP expired on April 30, 1997. The Elk Falls lumbermill operation technically remains a "common employer" with FCCL in accordance with a June, 1994 Labour Relations Board decision. There has, however, been a "separation agreement" negotiated with the CEP local 1123 which allows the lumbermill to operate independently of FCCL's adjacent pulp and paper mill. There are provisions for separate union committees, and future contract negotiations will also be carried out independently. TimberWest has made application to the Labour Relations Board for an order to rescind its June 1994 decision so that TimberWest would have a separate collective agreement with CEP concerning the union employees at the Elk Falls lumbermill. Until the June 1994 decision is rescinded, any labour disturbance in respect of FCCL's operations at Elk Falls would include TimberWest's Elk Falls lumbermill.

TimberWest is a member of Forest Industrial Relations, which negotiates a master agreement with coastal IWA-Canada locals on behalf of industry members. Negotiations for new agreements commenced May 5, 1997.

TimberWest has had a good relationship with its unionized employees. The last work stoppage involving the union locals that represents TimberWest's employees in the Continuing Operations was part of a prolonged industry-wide strike in 1986. Certain unionized employees are part of a co-operative management team and participate in a "gain-sharing" incentive arrangement, based on financial, safety and quality targets, which TimberWest will continue.

Capital Expenditures

For the three years ended June 30, 1996 and the nine months ended March 31, 1997, $88.8 million was spent by TimberWest on various environmental, maintenance of business and value-adding projects, as well as on logging roads in respect of its Continuing Operations. Of this amount, $20.8 million was spent on value-adding projects at TimberWest's lumbermills. The following table summarize capital expenditures in respect of the Continuing Operations during the periods indicated:

	Nine Months ended March 31, 1997	Year Ended June 30, 1996	1995	1994
		($ millions)		
Lumbermill machinery & equipment	$0.6	$12.1	$11.5	$ 3.8
Logging machinery & equipment	0.8	12.2	11.9	6.8
Logging roads	5.6	6.7	6.8	6.9
Head office	0.4	0.6	1.8	0.3
Total Capital Expenditure in the period	$7.4	$31.6	$32.0	$17.8

Capital expenditure requirements for TimberWest's logging operations are primarily for the maintenance of TimberWest's business. The majority of expansionary capital expenditures required to meet sustainable harvest levels have been made. Ongoing capital spending will be required to build roads and maintain equipment at or near its existing levels and is expected to approximate depreciation and amortization.

Both the Elk Falls and Cowichan lumbermills have recently been upgraded to improve their operations. At Elk Falls, in particular, more than $17 million in value-adding capital upgrades have been made during the past three years. Accordingly, value-adding capital spending is expected to be minimal at each of the lumbermills, over the next several years. Capital spending of a maintenance nature is not expected to exceed depreciation, on an annual basis.

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. For a description of certain environmental proceedings involving TimberWest, see "Legal Proceedings".

Environmental performance is monitored through both facility and forest practices internal audits. TimberWest has implemented an environmental facility audit system which ensures that an audit is carried out in each facility at least every two years. Biennial audits completed during 1994 and 1996 indicate that the Continuing Operations are generally in compliance with only minor problems being detected. Structured Assessments made during 1995 and late 1996 indicate that appropriate remedial actions are being undertaken. Emergency spill response equipment and procedures are in place at all of the Continuing Operations.

TimberWest's internal forest practices audit system was developed with the goal of ensuring that forest operations meet the standards required under the Forest Practices Code for Crown lands and private lands within TFLs, and company standards for private lands outside of TFLs. Structured Assessments were completed in 1995 to ensure that action plans resulting from 1994 audits were implemented in a timely and effective manner. Progress reports for these assessments are provided to the Vice President and Chief Forester. Forest practices were audited in calendar 1996 and Structured Assessments of satisfactory completion of audit action plans are being undertaken in calendar 1997.

TimberWest has in place an Environmental Management System ("EMS"). Management of the system is the responsibility of the Environmental Management Committee ("EMC") chaired by TimberWest's President and Chief Executive Officer. The EMC is responsible for implementation of the EMS and for managing the evolution of the system in response to changing performance standards, stakeholder expectations and scientific knowledge.

On April 1, 1997 the *Contaminated Sites Regulation* and the *Waste Management Amendment Act* (British Columbia), which are focused on reducing the environmental impact of contaminated sites, came into effect. 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.

Research And Development

TimberWest has ongoing research and development projects in the areas of forest planning, geographic information systems and genetic improvement of trees. The TimberWest Continuing Operations also contribute to industry-supported research associations including the Forest Engineering Research Institute of Canada, a forestry and logging research institute, and Forintek Canada Corp., a wood products research institute. In addition, TimberWest supports forest research programs at the University of British Columbia and a forest protection research chair at Simon Fraser University, and partially funds embryogenesis research through a private sector firm.

Higher Use Properties and Other Income

TimberWest owns a significant portfolio of higher value properties that are surplus to its timber harvesting requirements. The Higher Use Properties consist of approximately 5,100 hectares of fee simple land that are not included in the Private Timberlands. The Higher Use Properties are largely located in recreational areas or near expanding population centres in the rapidly growing east coast areas of Vancouver Island. The properties are suitable for a variety of real estate uses, including residential and commercial developments. Also included in the Higher Use Properties are certain timbered and other properties located in the mid-coast area and the Queen Charlotte Islands.

TimberWest will realize the value of the Higher Use Properties on an ongoing basis as opportunities become available. It is expected that additional properties will be sold as communities continue to expand, particularly in the area of the new Vancouver Island Highway. Where the Higher Use Properties are classified as "Managed Forests" by the British Columbia Assessment Authority, permission of the Forest Land Commission is required before the property may be subdivided or withdrawn from the provincial Forest Land Reserve. See "Forest Policy and Regulation — *Forest Land Reserve Act*". The removal of such properties from TimberWest's available timber harvesting properties will have a negligible impact on its operations and the proceeds from the sale of these properties will enhance TimberWest's future cash flows.

TimberWest may also earn income from the Private Timberlands from a variety of sources other than timber harvesting. In particular, there are currently 11 gravel pits located on the Private Timberlands which are operated by third parties and are expected to continue in operation for the foreseeable future.

MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF TIMBERWEST'S CONTINUING OPERATIONS

The Trust will be entirely dependent upon the operations of TimberWest.

Selected Historical Financial Information of Timberwest's Continuing Operations

Selected Financial Information

Operating Results of TimberWest's Continuing Operations

	Nine Months Ended March 31		Year Ended June 30		
	1997	1996	1996	1995	1994(1)
	(unaudited)				
	Millions of dollars (except per share amounts and sales volumes)				
Net Sales	$ 247.6	$ 220.2	$ 303.4	$ 396.7	$ 180.9
Operating Earnings	$ 32.2	$ 11.6	$ 24.9	$ 90.5	$ 46.1
Net Earnings	$ 24.9	$ 8.9	$ 16.4	$ 64.2	$ 25.4
Sales Volumes (unaudited)					
Lumber mmfbm	119.4	95.0	118.6	143.7	84.5
Logs mm^3	1,174.2	1,173.5	1,691.6	2,008.3	1,039.4

(1) For the period December 16, 1993 to June 30, 1994.

Nine Months Ended March 31, 1997 Compared to the Nine Months Ended March 31, 1996

TimberWest's net earnings from Continuing Operations for the nine months ended March 31, 1997 were $24.9 million, compared to net earnings of $8.9 million for the same period in 1996. Sales for the nine month period were $247.6 million, up from $220.2 million last year.

Log sales from Continuing Operations for the nine month period were $154.2 million, an increase of $11.1 million from the corresponding nine month period in 1996. Log sales realizations averaged $131 per m^3 during the period, a $9 per m^3 increase from the same period last year. Demand for many species improved during the period, largely as a result of the strengthening Japanese lumber market, but was partially offset by depressed pulplog prices.

Lumber sales from Continuing Operations for the period ended March 1997 were $83.3 million compared to $61.4 million for the comparative period in 1996. Due to increased demand in Japanese lumber markets average lumber sales realizations were $697 per mfbm, up from $646 per mfbm for the same period in the preceding year. Strong housing activity in Japan was driven by lower interest rates and higher consumer confidence.

Net earnings from Continuing Operations for the nine months ended March 31, 1997 also include a benefit of $9.1 million arising from non-capital tax loss carry forwards, recognized in the prior quarter. This was partially offset by restructuring costs, related to the elimination of approximately 50 staff positions, of $4.8 million.

Year Ended June 30, 1996 Compared to the Year Ended June 30, 1995

TimberWest's net earnings from Continuing Operations were $16.4 million for the year ended June 30, 1996. This compares with net earnings from Continuing Operations of $64.2 million for the year ended June 30, 1995. Sales were $303.4 million in 1996 compared to $396.7 million in 1995.

Log sales decreased to $209.0 million in fiscal 1996 from $277.7 million for the previous year, as average sales realizations declined by $14 per m^3 to $124 per m^3 and sales volumes declined by 316.7 mm^3 to 1,691.6 mm^3. The decline in log prices was primarily driven by a softer Japanese lumber market and weaker pulp markets. Log sales volumes were down due to lower purchases as the declining log market reduced log trading opportunities, and because TimberWest aggressively reduced log inventories in fiscal 1995 while prices were high. Average lumber sales realizations for fiscal 1996 declined by $66 per mfbm from the previous year. The Japanese lumber market, which began to exhibit signs of softening late in fiscal 1995, was weak throughout fiscal 1996 as a sluggish economy reduced demand for lumber products.

Operating earnings were also negatively affected by higher costs related to the introduction of the Forest Practices Code.

Other income was $3.6 million in fiscal 1996 compared to $17.9 million in 1995. Non-capital tax loss carry-forwards contributed $3.0 million to earnings in the year, down from $10.7 million in fiscal 1995, as lower taxable earnings required reduced utilization of loss carry-forwards. Other income in fiscal 1995 also benefited from one-time countervailing duty recoveries of $6.9 million.

Year Ended June 30, 1995 Compared to the Period from December 16, 1993 to June 30, 1994

TimberWest's net earnings from Continuing Operations were $64.2 million for the 12 months ended June 30, 1995. Net earnings from Continuing Operations for the six and one half month period ended June 30, 1994 were $25.4 million. Sales were $396.7 million for fiscal 1995 and $180.9 million for the six and one-half months included in fiscal 1994.

Average sales realizations for logs improved by $20 per m^3 to $138 per m^3 during the year, with log sales accounting for 70% of TimberWest's total sales from Continuing Operations compared to 68% in fiscal 1994. The coastal log market strengthened through most of the fiscal year, driven by tight supply and strong demand for logs from both pulp and paper producers and coastal lumber producers. Lumber sales realizations averaged $708 per mfbm during the period, up $106 per mfbm from the fiscal period ended June 1994. The improvement reflects a strong market for lumber in Japan where a strong yen and increased demand for new homes improved sales realizations over those experienced in fiscal 1994. Sales also benefited from strengthening prices for chips.

Coastal logging costs rose during the year because of increased stumpage charges implemented by the B.C. provincial government in May 1994.

Other income was $17.9 million for fiscal 1995 compared to $0.8 million in fiscal 1994. The increase reflects $10.7 million related to the utilization of non-capital loss carryforwards and $6.9 million related to countervailing duty refunds.

Fiscal Year

Following the Acquisition Closing, the fiscal year-end of TimberWest will be December 31.

Legal Proceedings

When the assets and businesses that comprise the Continuing Operations were originally purchased by TimberWest from FCCL under the terms of the Asset Purchase Agreement dated December 1, 1993, TimberWest assumed ongoing responsibility for matters arising from the operation of the Continuing Operations. This included responsibility for charges subsequently laid against FCCL under the Fisheries Act (Canada) related to slope failures at the Sandspit operations and on private lands on southern Vancouver Island. These prosecutions were both stayed by the Courts during the past year. TimberWest is also responsible for any fines and legal costs of FCCL arising out of further Fisheries Act (Canada) charges laid against FCCL and a TimberWest employee in November 1995. The charges relate to alleged road construction effects on a fish-bearing stream in the Sandspit operations. FCCL and the employee have pleaded not guilty. The trial of this matter has been completed and the parties are awaiting the court decision.

In 1995, the British Columbia provincial government unilaterally replaced royalty fees charged on TLs with more onerous stumpage fees. TimberWest has commenced legal action to recover compensation for the resulting loss and damage to the Continuing Operations' commercial and economic interests and investment in the TLs.

The effect on TimberWest from these proceedings is not known at this time.

MANAGEMENT OF TIMBERWEST

Directors of TimberWest

Upon completion of the Acquisition, the Board of Directors of TimberWest will be comprised of five members. Set forth below is information concerning the proposed initial directors of TimberWest.

Name and Municipality of Residence	
Irving K. Barber Delta, British Columbia	Chairman, President and Chief Executive Officer, Slocan Forest Products Ltd. (forest products)
William C. Brown West Vancouver, British Columbia	President, BC Sugar Refinery, Limited (sugar producer)
Anthony J. Petrina West Vancouver, British Columbia	Corporate Director
R. Keith Purchase West Vancouver, British Columbia	President and Chief Executive Officer of TimberWest
Kenneth A. Shields Vancouver, British Columbia	President and Chief Executive Officer, Goepel Shields & Partners Inc. (investment dealers)

As set forth below under "Election of Directors", the Trustees will vote the shares of TimberWest held by the Trust to elect, as directors of TimberWest, those individuals approved from time to time by Unitholders.

During the past five years, the proposed directors of TimberWest have been engaged in the same or similar occupations with organizations indicated above, except that prior to 1992 Mr. Petrina was President and Chief Executive Officer of Placer Dome Inc. and prior to December, 1993 Mr. Purchase was Managing Director of Tasman Pulp and Paper Company (New Zealand).

Each director is elected by the Trustees at the annual meeting of shareholders to serve until the next annual meeting or until a successor is duly elected or appointed.

The directors of TimberWest who are not officers of TimberWest will be entitled to compensation for services rendered and to be reimbursed for expenses incurred in the performance of the duties of a director of TimberWest. Initial annual compensation will be $ ● to each director who is not a Trustee and $ ● to a director who is a Trustee, plus $ ● for each meeting attended.

Officers of TimberWest

Set forth below are the names, municipalities of residence, offices held and principal occupations for the past five years of the officers of TimberWest.

Name and Municipality	Position	Principal Occupation
Erik Bentsen Campbell River, British Columbia	Vice President, Coastal Logging	Officer of TimberWest. Previously, Vice President, North Island Region, TimberWest; General Manager, North Island Region, Coast Wood Products, Fletcher Challenge Canada Limited; Logging Operations Manager, Coast Wood Products, Fletcher Challenge Canada Limited
Wanda C. Costuros Coquitlam, British Columbia	Vice President, Finance and Chief Financial Officer	Officer of TimberWest. Previously, Manager Strategic Planning and Special Projects, Fletcher Challenge Canada Limited; Manager Special Projects, Fletcher Challenge Canada Limited.
Hanif A. Karmally Delta, British Columbia	Secretary-Treasurer	Officer of TimberWest. Previously, Controller and Secretary of TimberWest; Group Controller, Wood Products, Fletcher Challenge Canada Limited; Manager, Special Projects, Fletcher Challenge Canada Limited.
Donald E. McMullan Vancouver, British Columbia	Vice President and Chief Forester	Officer of TimberWest. Previously, Chief Forester, Fletcher Challenge Canada Limited.
R. Keith Purchase West Vancouver, British Columbia	President and Chief Executive Officer	President and Chief Executive Officer of TimberWest. Previously Managing Director, Tasman Pulp and Paper Company Limited (New Zealand).
Ronald G. Sangster North Vancouver, British Columbia	Senior Vice President, Marketing	Officer of TimberWest. Previously, Vice President and General Manager Prairie Region, McGavin Bakeries; General Manager, Lifestream Natural Foods (Division of Nabob Foods Limited); Director of Trade Marketing, Nabob Foods Limited.

Executive Compensation

Summary Compensation Table

The following table sets out, for the period indicated, the compensation paid or granted by TimberWest and its subsidiaries to the individuals who were, at June 30, 1996, the Chief Executive Officer and the three most highly compensated executive officers of TimberWest and who will be executive officers of TimberWest following the Acquisition Closing, other than the Chief Executive Officer, for the financial year ended June 30, 1996 (collectively, the "Named Executive Officers").(1)

	Annual Compensation				Long Term Compensation Awards	
Name and Principal Position	Financial Year Ended June 30	Salary ($)	Bonus ($)	Other Annual Compensation(2) ($)	Securities under Options/SARs Granted (#)	All Other Compensation(3) ($)
R. Keith Purchase President and Chief Executive Officer	1996 1995 1994	245,000 210,000 100,000(4)	Nil 120,000 36,000	3,610 Nil Nil	30,303 Nil Nil	4,410 5,625 Nil
Erik Bentsen Vice President, North Island	1996 1995 1994	133,000 117,340 63,560(4)	Nil 43,000 42,000	Nil Nil Nil	10,859 20,283 Nil	2,394 2,868 1,900
Wanda C. Costuros Vice President, Finance and Chief Financial Officer(5)	1996 1995	127,500 110,000	Nil 44,000	Nil Nil	11,111 10,596	25,688(6) 24,214(6)
Donald E. McMullan Vice President and Chief Forester	1996 1995 1994	122,000 109,210 58,864(4)	Nil 41,000 39,000	182 329 377	10,354 Nil Nil	60,955(6) 67,413(6) 17,838(6)

(1) In this Prospectus, "executive officer" means the President, a vice president in charge of a principal business unit, division or function of TimberWest or an officer of TimberWest or any of its subsidiaries or any other person who performs policy making functions in respect of TimberWest.

(2) Perquisites and other personal benefits provided to the Named Executive Officers do not exceed, with respect to any Named Executive Officer, the lesser of $50,000 and 10% of the total annual salary and bonus paid to such Named Executive Officer. Amounts in this column represent imputed interest on housing loans.

(3) Amounts in this column include TimberWest's contribution to an employee share purchase plan available to all employees of TimberWest.

(4) For the period December 16, 1993 to June 30, 1994.

(5) Became an executive officer on July 21, 1994 upon appointment as Vice President, Finance and Chief Financial Officer.

(6) Includes vested and unvested annual contributions and allocations to defined contribution pension plan and, in respect of the unvested portion of such contributions, reflects contributions made in a particular fiscal year based on any bonus earned in the prior fiscal year: W.C. Costuros $24,541 (1996), $23,026 (1995); D.E. McMullan $59,857 (1996), $66,430 (1995), $16,993 (for the period December 16, 1993 to June 30, 1994).

Stock Appreciation Rights

The table which follows sets out information concerning grants by TimberWest of Share Appreciation Rights ("SARs") to those Named Executive Officers to whom SARs were granted during the financial year ended June 30, 1996.

SAR Grants During Financial Year Ended June 30, 1996[1]

Name	Securities under SARs Granted[2] (#)	% Total SARs Granted to Employees in Financial Year	Exercise or Base Price[3] ($/security)	Market Value of Securities Underlying SARs on Date of Grant[4] ($/security)	Expiration Date
R. Keith Purchase	30,303	27.3	17.440-32.297	15.25	6 Aug. 2004
Erik Bentsen	10,859	9.8	17.440-32.297	15.25	6 Aug. 2004
Wanda C. Costuros	11,111	10.0	17.440-32.297	15.25	6 Aug. 2004
Donald E. McMullan	10,354	9.3	17.440-32.297	15.25	6 Aug. 2004

(1) All grants of SARs disclosed in this table were made by TimberWest on August, 1995 and are exercisable on and after August 6, 1997.

(2) The underlying securities are common shares of TimberWest.

(3) The exercise prices are calculated by reference to the weighted average price per common share for all sales of common shares on The Toronto Stock Exchange during the ten consecutive trading days following July 21, 1994, the date of the announcement by TimberWest of its annual financial results for the fiscal year ended June 30, 1994. This reference amount ($13.505) is escalated semi-annually on January 1 and July 1 on a compound basis at the rate of 9% per annum from August 6, 1994 to determine the exercise price during each period in which the SARs are exercisable.

(4) Closing price of the common shares of TimberWest on The Toronto Stock Exchange on August 1, 1995, the most recent trading day preceding the date of grant.

Aggregate SARs Exercised During Financial Year Ended June 30, 1996 and June 30, 1996 SAR Values

Name	Securities Acquired on Exercise (#)	Aggregate Value Realized ($)	Unexercised SARs at June 30, 1996[1] (#)		Value of Unexercised in-the-money SARs at June 30, 1996[2] ($)	
			Exercisable	Unexercisable	Exercisable	Unexercisable
R. Keith Purchase	Nil	N/A	Nil	30,303	N/A	N/A
Erik Bentsen	Nil	N/A	15,379	15,763	21,195	N/A
Wanda C. Costuros	4,056	9,077	3,270	14,381	1,227	N/A
Donald E. McMullan	Nil Nil	N/A N/A	N/A 6,332[3]	Nil 2,000[3]	N/A 11,246[4]	N/A N/A

(1) Unless otherwise noted, underlying securities are TimberWest shares.

(2) The closing price of the TimberWest shares on The Toronto Stock Exchange on June 30, 1996 was $15.00 per share.

(3) Underlying securities are Class A common shares of Fletcher Challenge Canada Limited.

(4) The closing price of the Class A common shares of Fletcher Challenge Canada Limited on The Toronto Stock Exchange on June 30, 1996 was $18.50 per share.

Upon the Acquisition Closing all SAR's will be exercised.

Retirement Plans

The following table sets forth estimated annual retirement benefits that become payable under TimberWest's Retirement Plan for Senior Executives.

Pension Plan Table

	Years of Service							
Remuneration	**10**	**15**	**20**	**25**	**30**	**35**	**40**	**45**
$100,000	$20,000	$ 30,000	$ 40,000	$ 50,000	$ 60,000	$ 70,000	$ 80,000	$ 90,000
150,000	30,000	45,000	60,000	75,000	90,000	105,000	120,000	135,000
200,000	40,000	60,000	80,000	100,000	120,000	140,000	160,000	180,000
250,000	50,000	75,000	100,000	125,000	150,000	175,000	200,000	225,000
300,000	60,000	90,000	120,000	150,000	180,000	210,000	240,000	270,000
350,000	70,000	105,000	140,000	175,000	210,000	245,000	280,000	315,000

(1) Annual average covered remuneration, which includes annual salary and bonuses.

Two of the Named Executive Officers are members of the Retirement Plan for Senior Executives under which an executive officer retires at age 65 with a monthly pension amounting to 2% of each year of credited service applied to the average monthly salary and bonus during the 60 consecutive months when salary and bonus were highest, with a spousal benefit of 60% of the executive officer's pension. The amount of bonus recognized in pensionable earnings is limited to 50% of the bonus payment. No benefit is payable under this plan if the executive officer ceases to be employed by TimberWest prior to age 55. The benefit payable from this plan is reduced by 0.25% per month that retirement occurs prior to age 60. Credited years of service for the Named Executive Officers currently and at normal retirement at age 65 are respectively as follows: R. Keith Purchase, 2 years and 15 years; and Erik Bentsen, 28 years and 43 years.

Termination Of Employment, Change In Responsibilities And Employment Contracts

Following the announcement in October, 1996 that TimberWest would conduct an auction and solicit offers for the sale of TimberWest, the directors of TimberWest determined that it would be in the best interests of TimberWest to provide incentives for senior management to remain with TimberWest notwithstanding the uncertainty as to TimberWest's future. The Board of Directors of TimberWest approved the entering into of incentive and severance agreements with 11 of the executive officers, including the Named Executive Officers, providing for the following:

- executive officers who are terminated without cause within the period of two years from the occurrence of a change in control or sale of substantially all the assets of TimberWest (a "Change in Control") will be entitled to a two year severance period (30 months in the case of the President and Chief Executive Officer) during which he or she will receive base salary, bonus under the then existing "Senior Management Value Added Incentive Plan" and benefits;
- recognition of the severance period for purposes of additional years of service for executive officers covered under TimberWest's defined benefit pension plan and for the period of required contributions for executive officers covered under TimberWest's defined contribution pension plan;
- certain restrictions to the payments, benefits and other entitlements to which executive officers may be entitled apply if the executive officer secures comparable alternate employment during the severance period or in the event of the death or termination of employment of the executive officer for cause during that period;
- an incentive bonus payable to each of the executive officers in the event of a Change in Control equal to his or her base salary multiplied by a percentage determined in relation to the excess of the selling price per TimberWest Share in the Change in Control transaction over $20 per TimberWest Share; however payment of one-half of the incentive bonuses payable to the President and Chief Executive Officer and the Vice President Finance and Chief Financial Officer will be deferred until one year after the Change

in Control and will be contingent on these executive officers remaining as employees of TimberWest or the acquiring entity unless dismissed by that entity;

- vesting of SARs upon a Change in Control, and if the selling price per TimberWest Share in the Change in Control transaction is $20 or more, payment for each SAR of the difference between the current market price per TimberWest Share at the time of the Change in Control transaction and $15.97; any amount paid pursuant to the SARs will be deducted from the amount, if any, of the executive officer's incentive bonus.

In the case of the price of $22 per share of TimberWest provided for in the Acquisition, the applicable percentages of base salary for the calculation of the incentive bonuses are 200% for the President and Chief Executive Officer, 150% for the Vice President, Finance and Chief Financial Officer and 75% for other executive officers. Upon the Acquisition Closing, the 11 executive officers will be entitled to receive, pursuant to their incentive and severance agreements, incentive bonuses and/or proceeds of exercise of SARs in the aggregate amount of approximately $1.6 million, payment of $400,000 of which will be deferred.

Indebtedness of Directors and Officers

As at April 1, 1997 the aggregate indebtedness to TimberWest and its subsidiaries, other than amounts considered to be routine indebtedness, of all officers, directors, employees and former officers, directors and employees of TimberWest or any of its subsidiaries was $991,858.

The following table sets out information in respect of each director, executive officer or senior officer of TimberWest, or any associate of any such director or officer who since July 1, 1995 has been indebted to TimberWest or any of its subsidiaries or had indebtedness to another entity that was the subject of a guarantee, support agreement, letter of credit or other similar arrangement or understanding provided by TimberWest or any of its subsidiaries, other than amounts considered to be routine indebtedness or indebtedness repaid in full prior to the date of this prospectus.

Table of Indebtedness of Directors, Executive Officers and Senior Officers

Name and Principal Position	Involvement of Issuer or Subsidiary	Largest Amount Outstanding During Financial Year Ended June 30, 1996	Amount Outstanding as at April 1, 1997
R. Keith Purchase[1] . . . . President and Chief Executive Officer	Company as lender	$367,500	$333,813
Ronald G. Sangster[2] . . . . Senior Vice President, Marketing	Company as lender	$150,000	$131,250

(1) Interest-free housing loan repayable at $36,750 per year to 2006.

(2) Interest-free housing loan repayable at $15,000 per year to 2006.

Other Compensation Plans

TimberWest has had a plan, known as the "Senior Management Value Added Incentive Plan", under which cash incentives were payable after the end of TimberWest's fiscal year to designated executives, and a plan providing for annual grants of SAR's to those executive officers who receive cash incentives under the plan referred to above. Following the Acquisition Closing, the Board of Directors of TimberWest will consider and make recommendations concerning the form of incentive plans to be adopted by TimberWest. These plans may include or be similar to existing plans and will include the issuance of options to acquire Trust Units under the Trust Unit Incentive Plan referred to below.

Trust Unit Incentive Plan

The Trust and TimberWest will implement a Trust Unit incentive plan (the "Trust Unit Incentive Plan") which will provide for the issuance of options to acquire Trust Units to the Trustees and to the directors, senior officers and employees of TimberWest.

The purposes of the Trust Unit Incentive Plan is to encourage ownership of Trust Units by Trustees and the directors, senior officers and employees of TimberWest. Options may be granted under the Trust Unit Incentive Plan only to the Trustees and to the directors, senior officers and employees of TimberWest. The number of Trust Units which may be reserved for issuance under the Trust Unit Incentive Plan will be limited to 4,946,000 Trust Units (provided that on June 30, 1998 the number of Trust Units that are reserved for issuance under the Trust Unit Incentive Plan will be reduced to 10% of the number of Trust Units outstanding on that date). The exercise price for any Trust Units cannot be less than the closing price of the Trust Units on the stock exchange on which the Trust Units are then listed on the day immediately preceding the day upon which the option is granted. The term of an option shall not exceed ten years. Options granted under the Trust Unit Incentive Plan will be subject to early termination upon the optionee ceasing to be a Trustee or a director, senior officer or employee of TimberWest, as applicable, or upon the death of the optionee. The options will be non-transferable.

The Trust Unit Incentive Plan will also provide that options may be granted having provisions that on the exercise of an option, TimberWest will be entitled to pay the holder an amount equal to, or the holder will be entitled to receive Trust Units having a then current market value equal to, the difference in value between the option exercise price and the then current market price of the Trust Units determined on the basis of the weighted average trading price of the Trust Units for the five trading days immediately preceding the date of exercise.

Election of Directors

The Articles of TimberWest will provide that the number of directors of TimberWest be fixed at seven. The Declaration of Trust will provide that the Trustees will vote the shares of TimberWest held by the Trust to elect, as directors of TimberWest, those individuals approved from time to time by a majority of Unitholders voting at a meeting of Unitholders called to give directions to the Trustees for the election of directors of TimberWest. The Trust will provide Unitholders with the same information in respect of the proposed directors of TimberWest as TimberWest would provide if a meeting of TimberWest shareholders were called to elect such directors and the TimberWest Shares were listed on the same stock exchange as the Trust Units are listed.

SHARE AND LOAN CAPITAL OF TIMBERWEST

The following table sets out the capitalization of TimberWest (prior to amalgamation) as at March 31, 1997. It also sets out, on a pro forma basis, the capitalization of TimberWest after giving effect to the issuance of Notes and common shares of TAL to the Trust and to the Acquisition.

	Authorized	Amount Outstanding as at March 31, 1997	Amount Outstanding, on a pro forma basis, as at March 31, 1997 after giving effect to Acquisition
	(millions of dollars, except number of shares)		
Operating Debt to Affiliates[1]	$	$ 44.5	$ —
Bank Operating Loan[2]	30.0	—	—
Term Loan[2]	150.0	—	150.0
Bridge Loan[2]	160.0	—	160.0
Senior Subordinated Bridge Loan[2]	15.4	—	15.4
Series A Notes[3]	●	—	●
Common Shares	100,000,000	$256.3 (30,640,708 shs)	$ ●
Preferred Shares			
Class A	100,000,000	—	
Class B	5,000	—	
Class C	100,000	—	
Class D	100,000	—	

Notes:

1. Prior to March 31, 1997 TimberWest was indebted under a credit facility with FCCL.

2. The Operating Loan, Term Loan, Bridge Loan and Senior Subordinated Bridge Loan will be secured by a security interest in substantially all of TimberWest's assets. Authorized amounts are in respect of TAL.

3. The Notes are unsecured and subordinated to TimberWest's other indebtedness, including indebtedness to trade creditors. See "The Notes of TimberWest".

4. The unaudited retained earnings of TimberWest at March 31, 1997 were $129.6 million.

Share Capital of TimberWest

Following the Acquisition Closing TimberWest will be authorized to issue 100,000,000 Common Shares. Following the Acquisition Closing, all of the issued and outstanding TimberWest Shares will be owned by the Trust. Each TimberWest Share entitles its holder to receive notice of and to attend all meetings of shareholders of TimberWest and to one vote at such meetings. The holders of TimberWest Shares are, at the discretion of the Board of Directors of TimberWest and subject to applicable legal restrictions, entitled to receive ratably any dividends declared by the Board of Directors on the TimberWest Shares, and are entitled to participate ratably in any distribution to the shareholders of TimberWest upon a winding-up or otherwise.

On or before the Acquisition Closing, the Board of Directors of TimberWest will establish a distribution policy to distribute by way of dividend or by return of capital on the TimberWest Shares, at the discretion of the Board of Directors of TimberWest, all of its available cash, subject to applicable law and to TimberWest retaining such reasonable working capital reserves as may be considered appropriate by the Board of Directors of TimberWest. Prior to the end of each quarter, the Board of Directors will determine whether TimberWest has sufficient cash to declare a dividend for that quarter and, if so, what the amount of the dividend will be. The decision of what amount, if any, to declare as a dividend is intended to be a conservative estimate based on the results of each calendar quarter and will reflect, in part, the business activity, including seasonality and market conditions, of TimberWest for the quarterly period. An adjustment, if appropriate, to the total amount of distributions payable in respect of the net income of TimberWest for a fiscal year will be paid prior to March 31 of the following year.

Following the Acquisition Closing TimberWest will also be authorized to issue Preferred Shares in series, consisting of 100,000,000 Class A preferred shares without par value, 5,000 Class B preferred shares of $1,000 par value, 100,000 Class C preferred shares of $1,000 par value and 100,000 Class D preferred shares of $1,000 par value. Following the Acquisition Closing, no Preferred Shares of TimberWest will be issued or outstanding.

Notes of TimberWest

The following summary of the material attributes and characteristics of the Notes does not purport to be complete and is qualified in its entirety by reference to the provisions of the Note Indenture which contains a complete statement of such attributes and characteristics. See "Material Contracts".

The Note Indenture

The Notes will be issued under and will be entitled to the benefits of the Note Indenture. The aggregate principal amount of Notes that can be issued under the Note Indenture is unlimited. The Note Indenture can be amended by supplemental indentures providing for the creation and issue of additional series of Notes without limit as to aggregate principal amount and bearing such rate of interest, providing for such payments of principal (whether by instalment, sinking fund or otherwise) maturing on such date, and having such other attributes and characteristics as may be set forth in the supplemental indenture creating and defining such series of additional notes.

Ranking

The Notes will be unsecured debt obligations of TimberWest and will rank *pari passu* with all other Notes issued under the Note Indenture and all other unsecured indebtedness of TimberWest to which the Notes are not subordinated.

Payment of the principal and interest on the Notes will be subordinated in right of payment, as set forth in the Note Indenture, to the prior payment in full of the principal of and accrued and unpaid interest on, and all other amounts owing in respect of, all senior indebtedness ("Senior Indebtedness") which will be defined as all indebtedness of TimberWest which, by the terms of the instrument creating or evidencing the same, will be expressed to rank in right of payment in priority to the indebtedness evidenced by the Note Indenture. The Note Indenture will provide that upon any distribution of the assets of TimberWest, in the event of any dissolution, winding up, liquidation, reorganization or other similar proceedings relative to TimberWest, the holders of the Senior Indebtedness will be entitled to receive payment in full before the holders of the Notes are entitled to receive any payment.

The Loans will be Senior Indebtedness. Reference is made to "Operating Loan, Term Loan, Bridge Loan and Senior Subordinate Bridge Loan" for a description of the Loans, security therefor, the ranking of the Notes in respect of the Loans and the postponement and subordination of the Notes to the Loans.

Default

The Note Indenture provides that any of the following shall constitute an Event of Default: (i) default in payment of the principal of the Notes when the same becomes due; (ii) default in the payment of interest on the Notes when due and such default continuing for a continuous period of 27 months; (iii) acceleration of any Senior Indebtedness exceeding $25 million; (iv) certain events of winding-up, liquidation, bankruptcy, insolvency, receivership, general assignment for the benefit of creditors, or proceedings with respect to a compromise or arrangement under the *Companies' Creditors Arrangement Act* (Canada); (v) the taking of possession by an encumbrancer of all or substantially all of the property of TimberWest or any material subsidiary of TimberWest; (vi) TimberWest or any material subsidiary of TimberWest ceasing to carry on its business in the ordinary course; (vii) default by TimberWest or any material subsidiary of TimberWest in performing any material lease, licence or other agreement whereby any material property or rights of TimberWest or such subsidiary may be forfeited or terminated; and (viii) default by TimberWest in the observance or performance of any other covenant or condition of the Note Indenture and such default continuing for a period of 60 days after notice in writing has been given by the trustee under the Note Indenture (the "Note Trustee") to TimberWest specifying such default and requiring TimberWest to rectify the same.

The Note Indenture also provides that any event of default under the Note Indenture may be waived by the holders of a majority in principal amount of outstanding Notes and that the Note Trustee shall not be obliged to take or continue any steps or actions with respect to an event of default under the Note Indenture unless and to the extent that the Note Trustee is directed so to do by holders of a majority in principal amount of outstanding Notes and indemnified to the satisfaction of the Note Trustee in respect of any expense, cost or liability that the Note Trustee may incur by so doing. The Trustees, on behalf of the Trust, will not vote the Notes to authorize the Note Trustee to take any step or action with respect to an event of default under the Note Indenture unless the Trustees have been authorized by Special Resolution to authorize such step or action.

Whether or not an event of default under the Note Indenture has occurred, the Noteholders may appoint a committee of Noteholders' representatives to consult with and advise the Note Trustee as to matters relating to the enforcement or administration of the rights of the Noteholders.

Pursuant to agreements to be entered into between TimberWest, the Note Trustee and the Canadian chartered bank acting as agent in respect of the Loans, if an event of default occurs in respect of the Loans, no interest may be paid upon the Notes. If an event of default occurs in respect of the Notes and the Bridge Loan has been repaid, payment of the principal amount of, or any other amount in respect of, the Notes may not be accelerated unless such event of default continues for a period of 36 months and, if the Bridge Loan has not been repaid, for a period of 72 months.

Amendments to the Note Indenture

The Note Indenture may be amended or altered from time to time upon approval of holders of 66⅔% of the principal amount of the Notes voted on the matter. In addition, the Note Trustee may, without the approval of the Noteholders, amend the Note Indenture for certain purposes including:

(a) to make amendments which, in the opinion of the Note Trustee, provide additional protection for holders of Notes; and

(b) to remove any conflicts or inconsistencies in the Note Indenture or to make minor corrections which are, in the opinion of the Note Trustee, necessary or desirable and not prejudicial to the Noteholders.

The Trust Indenture provides that if any meeting of holders of Notes at which a resolution of holders of Notes is to be called, the Trustees will convene a meeting of holders of Trust Units at which such resolution will be considered, and that at the meeting of holders of Notes the Trustees will exercise the voting rights attaching to the Notes held by the Trust in the same proportions as Unit holders have voted on such resolution at the meeting of Unit holders.

The Series A Notes

$ ● aggregate principal amount of Series A Notes (the "Series A Notes") due June 30, 2027 will be issued on Closing. The Series A Notes will mature on June 30, 2027. The Series A Notes are issuable only as fully registered Notes in denominations of $100 and integral multiples thereof. The interest on, and the principal of, the Series A Notes will be payable in Canadian funds.

Interest on Series A Notes

The Series A Notes will bear interest at the rate of ● % per annum, payable quarterly on the Record Dates. The first interest payment will be paid on or before September 30, 1997.

Redemption of Series A Notes

TimberWest may at its option redeem Series A Notes in each calendar year having a principal amount of up to 5% of the principal amount of the Series A Notes outstanding at the commencement of such year without prepayment penalty. The Series A Notes to be so redeemed shall be selected on such basis as the Board of Directors of TimberWest determines. The Series A Notes will not otherwise be redeemable at the option of TimberWest or by the holders thereof prior to maturity. Pursuant to agreements to be entered into between TimberWest, the Note Trustee and the Canadian chartered bank acting as agent in respect of the Loans, no Notes may be redeemed while the Loans are outstanding.

Operating Loan, Term Loan, Bridge Loan and Senior Subordinated Bridge Loan

TAL obtained a commitment (the "Bank Commitment") from a Canadian chartered bank (the "Bank") for an operating loan (the "Operating Loan") of up to $30 million, a term loan (the "Term Loan") of $150 million, a bridge loan (the "Bridge Loan") of $160 million and from a subsidiary of the Bank a Senior Subordinated Bridge Loan (the "Senior Subordinated Bridge Loan") of approximately $15.4 million (collectively, the "Loans"). The commitment was obtained by TAL prior to TAL, TimberWest, FCCL and its affiliates entering into the agreements in respect of the Acquisition. The Loans are to be made only upon the acquisition by TAL of all of the issued shares of Timberwest and the satisfaction of certain other conditions in the Bank Commitment. Following the Amalgamation, the Loans, and all covenants in respect of the Loans, will be the liabilities and obligations of TimberWest, and the Loans will be secured by the assets and properties of TimberWest. The Bank providing the Bank Commitment is to act as agent for lenders (the "Lenders") (which may include the Bank) who agree to participate in the Loans. The term "Bank" when used in this Prospectus includes, where the context requires or permits, the Bank in its capacity as agent in respect of the Loans. The Loans are to be made pursuant to credit agreements (the "Credit Agreements") to be entered into between TAL, the Lenders and the Bank. The following summary of the material characteristics and terms of the Loans does not purport to be complete and is qualified entirely by reference to the Credit Agreements which contain a complete statement of such characteristics and terms.

Term of the Loans

The Bridge Loan is to be repaid on the earlier of: (i) completion of a distribution of Trust Units pursuant to a prospectus (subsequent to this prospectus) filed in such jurisdictions in Canada as may be determined by the directors of TimberWest for such purpose (the "Public Offering"); (ii) and nine months following the Acquisition Closing. The Lenders, by the vote of a specified majority, may extend the repayment date for up to 40% of the original amount of the Bridge Loan for up to one year following the Public Offering. The Term Loan is to be repaid within three years of the Acquisition Closing, but may be extended by each of the Lenders for additional periods of one year. If the Public Offering is not completed within nine months of the Acquisition Closing or the Bridge Loan is not repaid within nine months of the Acquisition Closing, then the remaining balance of the Bridge Loan and the Term Loan will convert to a six-year term loan requiring equal quarterly principal repayments. The Operating Loan is to be repaid within 364 days of the Acquisition Closing but may be extended by each of the Lenders for additional periods of up to 364 days. The Senior Subordinated Bridge Loan is to be repaid upon the earlier of: (i) completion of the Public Offering; and (ii) nine months following the Acquisition Closing unless extended by the subsidiary of the Bank. If the Senior Subordinated Bridge Loan is not repaid in full within nine months of the Acquisition Closing, then the subsidiary of the Bank will have the right to acquire from the Trust a number of Trust Units determined by dividing the principal amount of the Senior Subordinated Bridge Loan by the lesser of: (i) $9.00 per Trust Unit; and (ii) 90% of the average trading price of the Trust Units for the 30 day period preceding the maturity date of the Senior Subordinated Bridge Loan. The Trust will use the proceeds from the issue of such Trust Units to this subsidiary to subscribe for additional TimberWest Shares and Notes and TimberWest will use the proceeds received therefrom to repay the Senior Subordinated Bridge Loan. If this subsidiary does not exercise its right to acquire Trust Units, the Senior Subordinated Bridge Loan will convert to a six-year term loan requiring equal quarterly principal repayments ranking subordinate to the payment of the Term Loan and the Bridge Loan.

Any of the Loans may be prepaid upon payment to the Lender of all the Lenders' costs and expenses in re-employing the amounts so prepaid.

Interest Rates and Fees

The interest rates payable in respect of the Loans will vary from time to time and are based upon the London Interbank Offered Rate ("LIBOR"), "prime rate" of the Bank and the US dollar base rate ("USBR") of the Bank as selected by TimberWest from time to time. These rates vary for each of the Loans and range from the interest rate, LIBOR plus 0.5% per annum (50 basis points ("bps")) to 150 bps, and prime or USBR plus 0 bps to 75 bps. TimberWest may also issue bankers acceptances. The fees paid to the Lenders for these bankers acceptances will range from 50 bps to 150 bps. The Senior Subordinated Bridge Loan, if not repaid at the end of nine months, is to bear interest at the annual rate paid in respect of bankers acceptances plus 250 bps. The interest rates payable for each of the Loans declines toward the low end of the foregoing ranges after completion of a Public Offering.

The Bank and its subsidiary will receive financing fees in respect of the Loans payable upon the Acquisition Closing. In addition, TAL will pay a further fee to the subsidiary of the Bank for providing the Senior Subordinated Bridge Loan of $769,500 and this subsidiary will use the funds so received to subscribe for 76,950 Trust Units. If the Bridge Loan is not repaid within nine months of the Acquisition Closing, an additional fee is payable to the Bank.

Security for the Loans

The Loans are to be secured by a first charge on all assets and property of TimberWest subject to certain prior permitted charges. The Term Loan and the Bridge Loan are to have the benefit of a first charge on all fixed assets of TimberWest and a second charge on accounts receivable, inventories and other current assets of TimberWest ("current assets"). The Operating Loan is to have the benefit of a first charge on the current assets and a second charge on all fixed assets of TimberWest. The Senior Subordinated Bridge Loan is to be secured by a third charge on all assets and property of TimberWest.

Subordination of the Notes

Payment of the Notes is to be postponed to the prior payment in full of the obligations of TimberWest in respect of the Loans. No payment of principal of the Notes is to be made to, or accepted by, the holders of the Notes while the Loans are outstanding. No payment of interest on the Notes is to be made to, or accepted by, the holders of the Notes during the continuance of an event of default (or an event which, with the giving of notice or passage of time would constitute an event of default) in respect of the Loans. See "Events of Default" below. If an event of default occurs in respect of the Notes and the Bridge Loan has been repaid, payment of the principal amount of, or any other amount in respect of, the Notes may not be accelerated unless such event of default continues for a period of 36 months and, if the Bridge Loan has not been repaid, for a period of 72 months.

Financial Covenants

TimberWest is to covenant with the Lenders that at all times while the Loans are outstanding TimberWest will maintain the following ratios: (i) while the Bridge Loan is outstanding, the ratio of "senior secured long term debt" (which is to be defined as outstanding indebtedness, in respect of the Term Loan, the Bridge Loan and the Senior Subordinated Bridge Loan, capital lease obligations, and purchase money mortgages to the extent such indebtedness would, in accordance with generally accepted accounting principles, be considered to be long term debt (including the current portion)) outstanding at the end of any quarterly reporting period of TimberWest to consolidated earnings from Continuing Operations before interest, taxes, depreciation and amortization of TimberWest ("EBITDA") for the four consecutive quarterly reporting periods of TimberWest then ended, less any amounts in respect of capital expenditures of TimberWest ("capital expenditures") in such period is not to exceed • :1 and after the Bridge Loan has been repaid • :1; and (ii) EBITDA less capital expenditures for the most recent four consecutive quarterly reporting periods of TimberWest to interest expense (other than interest on the Notes) for such four quarterly reporting periods is at least • :1. In addition, TimberWest is to ensure that EBITDA for any four consecutive quarterly reporting periods of TimberWest exceeds $ • million. For the purposes of determining EBITDA, net cash proceeds from the sale of Higher Use Properties are to be included in earnings.

Negative Covenants

TimberWest is to covenant with the Lenders that, unless the Lenders consent in writing, neither TimberWest nor any subsidiary of TimberWest shall, so long as the Loans are outstanding: (i) grant, create, assume or permit to exist any Lien upon any of its assets or properties, except for Permitted Liens; (ii) create, incur, assume or permit to exist any indebtedness except for the Loans, the Notes or indebtedness having the benefit of a Permitted Lien unless either the Bridge Loan has been repaid or such additional indebtedness is postponed to the Loans in the manner and to the extent set forth under "Subordination of the Notes" and the proceeds thereof are applied as a permanent reduction of the Bridge Loan; (iii) guarantee or act as surety or agree to indemnify indebtedness or other obligations of others; (iv) except for the Acquisition, consolidate, amalgamate or merge with, or sell, lease, or otherwise dispose of (whether in one transaction or in a series of transactions) all or substantially all of its assets or business, or acquire all or substantially all of the assets or business of any other person; (v) sell, transfer or otherwise dispose of (including by lease) any assets except Higher Use Properties, inventory in the ordinary course of business and equipment materials or supplies that are no longer required in the business of TimberWest or that are worn-out or obsolete; (vi) following the Acquisition, issue, or permit any person to own, any shares of, or right to acquire shares of, TimberWest other than the Trust or as a result of the redemption of Trust Units, or issue any shares other than common shares; (vii) cease to carry on the business currently being carried on by TimberWest at the date of the Credit Agreements; (viii) make any distributions (including the payment of dividends or return of capital) upon any of its capital stock unless the ratio of EBITDA less capital expenditures for the four consecutive quarterly reporting periods ended most recently prior to such distribution to interest expense (other than interest on the Notes) for such four quarterly reporting periods, and after deducting the amount of such distribution from such EBITDA, is not less than • :1.0 and no default has occurred and is continuing or would result from such distribution; or (ix) change its fiscal year.

For purposes of these covenants: (i) "Lien" is to be defined as including any mortgage, lien, pledge, adverse claim, charge, security interest or other encumbrance, any title of any vendor, lessor or other secured party under any conditional sale or other title retention agreement, or the signing or filing of a financing statement; (ii) "Permitted Lien" is to be defined as including: (a) Purchase Money Mortgages not exceeding $ • outstanding at any time; (b) capital lease obligations not exceeding $ • outstanding at any time; and (c) Liens to secure the Loans; and (iii) "Purchase Money Mortgage" is to be defined as including a Lien on property acquired to secure the unpaid purchase price of such property or indebtedness incurred solely to finance the acquisition of such property and relates solely to such property and a Lien existing upon assets at the time of their acquisition whether or not given to secure the purchase price of such assets.

Events of Default

The Lenders will have the right to cancel the credit facilities and refuse to make further advances and accelerate the payment of the principal amount of the Loans and all interest and fees accrued thereon and all other amounts payable (and enforce all remedies available to them) at any time after the occurrence of any of the following events of default: (i) the failure by TimberWest to pay principal when due or interest or fees within three days of when due or when demanded if earlier; (ii) the failure of TimberWest to observe any of the covenants set forth under "Financial Covenants"; (iii) failure by TimberWest to observe or perform any other covenant under the Credit Agreements and such default continues unremedied for 15 days after a responsible officer knew or should have known of the default; (iv) any representation or warranty made by TimberWest under the Credit Agreements or in any certificate or instrument in connection therewith, should be false or incorrect at any time in any material respect; (v) a default or event which with the giving of notice or lapse of time would become a default occurs in respect of indebtedness or financial instrument of TimberWest or any subsidiary exceeding $5,000,000; (vi) proceedings are commenced for the dissolution, liquidation or winding-up of TimberWest, unless such proceedings are being actively and diligently contested in good faith by TimberWest; (vii) TimberWest or any subsidiary is adjudged or declared bankrupt or becomes insolvent, or petitions or applies to any court or other governmental body for the appointment of a receiver or trustee for it or for any substantial part of its property, or commences any proceedings relating to it under any reorganization, arrangement, readjustment of debt, dissolution, winding-up or liquidation law or statute of any jurisdiction, or by any act indicates its consent to, approval of, or acquiescence in, any such proceeding for it or for any substantial part of its property; (viii) a court or other government body issues a decree or order for the winding-up, liquidation or dissolution of TimberWest or any subsidiary or adjudging TimberWest or any subsidiary to be insolvent, or issues a decree or order granting any relief or remedy sought in any petition or other legal proceeding for the reorganization, readjustment of debt, arrangement, composition or similar relief in respect of TimberWest or any subsidiary under any law or statute of any jurisdiction, or any receiver, receiver and manager, custodian, liquidator, or trustee in bankruptcy is appointed for all or any material part of the property of TimberWest or any subsidiary; (ix) a writ, execution or attachment or similar process is issued or levied against all or any material portion of the property of TimberWest or any subsidiary, and such writ, execution, attachment or similar process is not released, bonded, discharged, vacated or stayed within 15 days after its entry, commencement or levy; (x) an encumbrancer takes possession of any material part of the properties or assets of TimberWest or any subsidiary, and such possession continues for more than 15 days; (xi) an order is made or legislation enacted by any competent body having authority for the expropriation, confiscation, forfeiture, escheating, other taking or compulsory divestiture, whether or not with compensation, of all or a significant portion of the consolidated assets of TimberWest and such order or legislation remains in effect and has not been stayed by a court of competent jurisdiction for a period of more than 30 days; (xii) there exists a voluntary or involuntary suspension of business of TimberWest, or any of its subsidiaries; (xiii) any final judgment for the payment of monies or an income tax reassessment in excess of $1,000,000 be rendered against TimberWest, or its subsidiaries, and it is not discharged or satisfied within 30 days from the imposition of such judgment or reassessment; (xiv) any material obligation of TimberWest or any subsidiary in the Credit Agreements or the security ceases, or is declared by a court not to be a legally binding or enforceable obligation; or (xv) there shall occur, in the determination of the Lenders, a material adverse change in the financial condition, business or operations of TimberWest, or any of TimberWest's subsidiaries, of which notice has been given by the Bank to TimberWest.

DECLARATION OF TRUST AND DESCRIPTION OF TRUST UNITS

Declaration of Trust

The Trust is an open-ended, limited purpose, unincorporated trust established pursuant to the Declaration of Trust and governed by the laws of British Columbia. The Trust Units will be issued pursuant to the Declaration of Trust and represent equal fractional beneficial interests in the Trust. All Trust Units will share equally in all distributions from the Trust and all Trust Units will carry equal voting rights at meetings of Unitholders.

The Trust was created as a limited purpose trust in that the Declaration of Trust provides that the undertaking of the Trust is restricted to:

1. investing in securities issued by TimberWest;
2. temporarily holding cash and short term investments for the purposes of paying the expenses of the Trust, paying amounts payable by the Trust in connection with the redemption of any Trust Units and making distributions to Unitholders; and
3. issuing Trust Units for cash or in order to acquire, directly or indirectly, securities issued by TimberWest.

The following is a summary of certain provisions of the Declaration of Trust. For a complete description of the Trust Units and the Declaration of Trust, reference should be made to the Declaration of Trust. See "Material Contracts".

Trustees

The Declaration of Trust provides for not more than five nor less than two Trustees. Trustees shall be reappointed or replaced every year as may be determined by a majority of the votes cast at an annual meeting of the Unitholders. A person who is a non-resident of Canada for the purposes of the Tax Act is disqualified from acting as a Trustee. The Trustees are responsible for, among other things: (i) acting for, voting on behalf of and representing the Trust as a shareholder and noteholder of TimberWest, (ii) maintaining records and providing reports to Unitholders; (iii) supervising the activities of the Trust, (iv) managing the affairs of the Trust, and (v) declaring distributions from the Trust Unitholders.

A Trustee may resign upon written notice to the Trust and may be removed by a majority of the votes cast at a special meeting of the Unitholders and the vacancy created by such removal may be filled at the same meeting, failing which it may be filled by the Board.

A quorum of the Trustees, being two Trustees, may fill a vacancy among the Trustees, except a vacancy resulting from an increase in the minimum number of Trustees or from a failure of the Unitholders to elect the minimum number of Trustees. A quorum of Trustees may also appoint one additional Trustee at any time before the Acquisition Closing. In the absence of a quorum, or if the vacancy has arisen from a failure of the Unitholders to elect the minimum number of Trustees, the Trustees then in office shall forthwith call a special meeting of Unitholders to fill the vacancy. If the Trustees then in office fail to call such meeting or if there are no Trustees then in office, any Unitholder may call the meeting.

The Trustees may, between annual meetings of the Unitholders, appoint one or more additional Trustees to serve until the next annual meeting of the Unitholders, but the number of additional Trustees shall not at any time exceed one-third of the number of Trustees who held office at the expiration of the immediately preceding annual meeting of the Unitholders.

The Declaration of Trust provides that the Trustees shall act honestly and in good faith with a view to the best interests of the Trust and in connection therewith shall exercise the degree of care, diligence and skill that a reasonably prudent person would exercise in comparable circumstances. The Declaration of Trust provides that the Trustees shall be entitled to indemnification from the Trust in respect of the exercise of their powers and the discharge of their duties in the absence of wilful misconduct, bad faith, negligence or a breach of their duties and standard of care. The Declaration of Trust provides that the duties and standard of care of the Trustees are intended to be similar to, and not to be greater than, those imposed on a director of a British Columbia company. The Trustees will not be liable to any Unitholder for any action taken in good faith in reliance upon any documents that are, prima facie, properly executed, for any depreciation of, or loss to, the Trust incurred by reason of the sale of any security, for the loss or disposition of monies or securities, or for any other act, including, without limitation, the failure to compel in any way any Trustee to redress any breach of trust or any failure by TimberWest to perform obligations or pay monies owed to the Trust, except for a breach of the standard of care, diligence and skill established for the Trustees.

The Declaration of Trust provides that, in respect of the issue of Trust Units, the Trustees are required to issue Trust Units for the consideration, and on the terms and conditions, as directed from time to time by TimberWest's Board of Directors.

Trust Units

An unlimited number of Trust Units may be issued pursuant to the Declaration of Trust. Each Trust Unit is transferable and represents an equal fractional undivided beneficial interest in any distribution from the Trust whether of net income, net realized capital gains or other amounts, and in any net assets of the Trust in the event of termination or winding-up of the Trust. All Trust Units shall rank among themselves equally and rateably without discrimination, preference or priority. Trust Units are not subject to future calls or assessments and each Trust Unit entitles the holder thereof to one vote for each whole Trust Unit held at all meetings of Unitholders. Except as set out under "Redemption Right", the Trust Units have no conversion, retraction, redemption or pre-emptive rights. Unitholders do not have statutory rights normally associated with the ownership of shares of a corporation including, for example, the right to bring oppression or derivative actions. Additional Trust Units may be issued in the future.

Issuance of Trust Units

The Declaration of Trust provides that the Trustees will issue Trust Units at the times, to the persons, for the consideration and on the terms and conditions that the directors of TimberWest determine without approval of Unitholders. Subject to applicable law, Trust Units may be issued in satisfaction of any non-cash distribution of the Trust to Unitholders, on a pro rata basis. The Declaration of Trust also provides that immediately after any pro rata distribution of Trust Units to all Unitholders in satisfaction of any non-cash distribution, the number of outstanding Trust Units will be consolidated such that each Unitholder will hold after the consolidation the same number of Units as the Trust Unitholder held before the non-cash distribution. In this case, each certificate representing a number of Trust Units prior to the non-cash distribution is deemed to represent the same number of Trust Units after the non-cash distribution and the consolidation.

Cash Distributions

The amount of Distributable Cash to be distributed annually per Trust Unit shall be equal to a pro rata share of interest and dividend income, principal and capital received by the Trust in the year less: (i) administrative expenditures of the Trust; and (ii) amounts which may be paid by the Trust in connection with any cash redemptions of Trust Units. Any income of the Trust which is applied to any cash redemptions of Trust Units or is otherwise unavailable for cash distribution will be distributed to Unitholders in the form of additional Trust Units. Such additional Trust Units will be issued pursuant to applicable exemptions under applicable securities laws, discretionary exemptions granted by applicable securities regulatory authorities or a prospectus or similar filing.

TimberWest's policy will be to distribute all of its available cash by way of dividends or return of capital on the TimberWest Shares and interest or principal repayments on the Notes, subject to TimberWest retaining such reasonable working capital reserves as may be considered appropriate by the Board of Directors of TimberWest. The amount of cash to be distributed annually per Trust Unit will be equal to a pro rata share of interest or principal and distribution of dividends or capital received by the Trust from TimberWest in the year less expenditures incurred by the Trust. Quarterly distributions are to be paid to Unitholders of record as of the last day of each calendar quarter on the 15th day of January, April, July and October. The amount of Distributable Cash for any quarterly period will reflect, in part, the business activity, including seasonality and market conditions of TimberWest. Any dividends or other distributions paid by TimberWest to the Trust with respect to the net income of TimberWest for any fiscal year, in excess of the quarterly cash distributions made by TimberWest to the Trust in respect of the net income for such fiscal year, are expected to be distributed by the Trust annually to Unitholders of record on March 31 of each year, with the payment being made on or about April 15 of such year. The initial distribution is to be paid on October 15, 1997 to Unitholders of record on September 30, 1997. See "Declaration of Trust and Description of Trust Units — Cash Distributions".

Trust Administration

The Trust will enter into the Administration Agreement with TimberWest whereby TimberWest will agree to provide or arrange for the provision of services required in the administration of the Trust. Where administration services are required for the Trust, these services may be contracted for by TimberWest with third parties. The Administration Agreement will have an initial term of ten years and will be automatically renewed thereafter for three-year terms. The Administration Agreement may be terminated by the Trust upon payment to TimberWest of all costs and expenses incurred by TimberWest in terminating contracts TimberWest has entered into with the approval of the Trust for the performance by TimberWest of its duties under the Administration Agreement.

TimberWest will be reimbursed for expenses incurred by it and attributable to the exercise of its duties in the administration of the Trust but otherwise no fee is payable to TimberWest for the services provided by it to the Trust under the Administration Agreement.

Redemption Right

Trust Units are redeemable at any time at the option of the holders thereof upon delivery to the Trust of the certificate or certificates representing such Trust Units, accompanied by a duly completed and properly executed notice requesting redemption. Upon receipt of the redemption request by the Trust, all rights of the holder with respect to the Trust Units tendered for redemption shall cease and the holder thereof shall only be entitled to receive a price per Trust Unit ("Cash Redemption Price") equal to the lesser of: (i) 90% of the "market price" of the Trust Units on the principal exchange or market on which the Trust Units are quoted for trading during the 10 trading day period commencing immediately after the date on which the Trust Units were surrendered for redemption (the "Redemption Date"); and (ii) the "closing market price" on the principal exchange or market on which the Trust Units are quoted for trading on the Redemption Date.

For the purposes of this calculation, "market price" will be an amount equal to the simple average of the closing price of the Trust Units for each of the trading days on which there was a closing price; provided that if the applicable exchange or market does not provide a closing price but only provides the highest and lowest prices of the Trust Units traded on a particular day, the "market price" shall be an amount equal to the simple average of the average of the highest and lowest prices for each of the trading days on which there was a trade; and provided further that if there was trading on the applicable exchange or market for fewer than five of the 10 trading days, the "market price" shall be the simple average of the following prices established for each of the 10 trading days: (i) the average of the last bid and last ask prices of the Trust Units for each day on which there was no trading; (ii) the closing price of the Trust Units for each day that there was trading if the exchange or market provides a closing price; and (iii) the average of the highest Units for each day that there was trading, if the market provides only the highest and lowest prices of Trust Units traded on a particular day. The "closing market price" shall be: (i) an amount equal to the closing price of the Trust Units if there was a trade on the date; (ii) an amount equal to the average of the highest and lowest prices of Trust Units if there was trading and the exchange or other market provides only the highest and lowest prices of Trust Units traded on a particular day; or (iii) the average of the last bid and last ask prices of the Trust Units if there was no trading on the date.

The aggregate Cash Redemption Price payable by the Trust in respect of any Trust Units surrendered for redemption during any calendar month shall be satisfied by way of a cash payment on the last day of the following month, provided that the entitlement of Unitholders to receive cash upon the redemption of their Trust Units is subject to the limitations that: (i) the total amount payable by the Trust in respect of such Trust Units and all other Trust Units tendered for redemption in the same calendar month shall not exceed $200,000 (provided that such limitation may be waived on behalf of the Trust by the directors of TimberWest); (ii) at the time such Trust Units are tendered for redemption the outstanding Trust Units shall be listed for trading on a stock exchange or traded or quoted on any other market which the Trustees consider, in their sole discretion, provides representative fair market value prices for the Trust Units; and (iii) the normal trading of Trust Units is not suspended or halted on any stock exchange on which the Trust Units are listed (or, if not listed on a stock exchange, on any market on which the Trust Units are quoted for trading) on the Redemption Date or for more than five trading days during the 10 trading day period commencing immediately after the Redemption Date.

If a Unitholder is not entitled to receive cash upon the redemption of Trust Units as a result of the foregoing limitations, then the market price for such Trust Units shall be the fair market value thereof as determined by the Trustees and the redemption price shall, subject to any applicable regulatory approvals, be paid and satisfied by way of a distribution in specie of a pro rata number of TimberWest Shares and Notes (in integral multiples of $100) held by the Trust from time to time. No fractional TimberWest Shares or Notes will be distributed and where the number of such TimberWest Shares and Notes to be received by a Unitholder shall be rounded to the next lowest whole number. The Trust shall be entitled to all interest paid or accrued and unpaid on the Notes on or before the date of the distribution in specie. If a Unitholder is not entitled to receive cash upon the redemption of Trust Units and the redemption price for such Trust Unit is to be paid and satisfied by a distribution of TimberWest Shares and Notes, the Trustees shall notify such Unitholder who shall thereupon be entitled to revoke the redemption request in respect of such Trust Units.

It is anticipated that the redemption right described above will not be the primary mechanism for holders of Trust Units to dispose of their Trust Units. The TimberWest Shares and Notes which may be distributed in specie to Unitholders in connection with a redemption will not be listed on any stock exchange, no market is expected to develop in such TimberWest Shares and Notes and such TimberWest Shares and Notes may be subject to resale restrictions under applicable securities laws. The TimberWest Shares and Notes so distributed will not be qualified investments for trusts governed by registered retirement savings plans, registered retirement income funds and deferred profit sharing plans. See "Canadian Income Tax Considerations".

Meetings of Unitholders

The Declaration of Trust provides that Unitholders may pass resolutions that bind the Trustees or the Trust with respect to: the appointment or removal of the directors of TimberWest (except filling casual vacancies); the appointment or removal of a Trustee; the appointment or removal of the auditors of the Trust; the approval of amendments to the Declaration of Trust (except as described under "Description of the Trust — Amendments to the Declaration of Trust"); the appointment of an inspector; the sale of all or substantially all of the undertaking of the Trust (other than as part of an internal reorganization); and the termination of the Trust. Such resolutions must be passed by Special Resolution. Meetings of Unitholders will be called and held annually for the election of the directors of TimberWest and the appointment of auditors of the Trust.

A special meeting of Unitholders may be called at any time by the Trustees and must be convened upon a written request of the holders of not less than 10% of the Trust Units then outstanding. Such request must state in reasonable detail the business proposed to be transacted at the meeting.

Unitholders may attend and vote at all meetings of the Unitholders either in person or by proxy and a proxyholder need not be a Unitholder. Two individuals present in person either holding personally or representing by proxy in the aggregate at least 10% of the votes attaching to all outstanding Trust Units shall constitute a quorum for the transaction of business at all such meetings.

The Declaration of Trust contains provisions as to the notice required and other procedures with respect to the calling and holding of meetings of Unitholders.

Limited Liability

The Declaration of Trust provides that no Unitholder in its capacity as such shall be subject to any personal liability in connection with the Trust or the obligations and affairs of the Trust or with respect to any act performed by or omission of the Trustees or any other person nor liable to indemnify the Trustees or any such person.

Exercise of Voting Rights Attached to TimberWest Shares and Notes

The Declaration of Trust provides that the Trustees shall not vote the shares of TimberWest held by the Trust in favour of or otherwise to authorize:

1. any amendment to the Memorandum or Articles of TimberWest to change or remove any restriction on the business of TimberWest, change the authorized share capital or amend the rights, privileges and conditions attaching to any class of shares of TimberWest;

2. any sale, lease or exchange of all or substantially all of the property and undertaking of TimberWest except in the ordinary course of business of TimberWest or as part of an internal reorganization of TimberWest;
3. any issue of TimberWest Shares or Notes other than to the Trust; or
4. any amalgamation or other merger of TimberWest with any other corporation, except one or more wholly owned subsidiaries of TimberWest;

without the approval of the Unitholders by Special Resolution.

The Declaration of Trust also provides that the Trustees shall not vote the Notes to authorize the Note Trustee to take any step or action with respect to any event of default under the Note Indenture, or any material amendment to the Note Indenture without the approval of the Unitholders by Special Resolution.

Limitation on Non-Resident Ownership

In order for the Trust to maintain its status as a mutual fund trust under the Tax Act, the Trust must not be established or maintained primarily for the benefit of non-residents of Canada ("non-residents") within the meaning of the Tax Act. Accordingly, the Declaration of Trust provides that at no time may non-residents be the beneficial owners of a majority of the Trust Units and the Trustees shall inform the transfer agent and registrar of the Trust Units of this restriction. The Trustees may direct the transfer agent and registrar to require declarations as to the jurisdictions in which beneficial owners of Trust Units are resident. The Trustees may refuse to transfer Trust Units if they believe that as a result of the transfer more than 50% of the outstanding Trust Units would be beneficially held by non-residents of Canada. If the Trustees become aware that the beneficial owners of 49% of the Trust Units then outstanding are or may be non-residents or that such a situation is imminent, the Trustees may, or may direct the transfer agent and registrar to, make a public announcement thereof and not to accept a subscription for Trust Units from, or issue or register a transfer of Trust Units to, a person unless the person provides a declaration that the beneficial owner is not a non-resident. If, notwithstanding the foregoing, the Trustees determine that a majority of the Trust Units are held by non-residents, the Trustees may direct the transfer agent and registrar to send a notice to non-resident holders of Trust Units, chosen in inverse order to the order of acquisition or registration or in such other manner as the Trustees may consider equitable and practicable, requiring them to sell their Trust Units or a portion thereof within a specified period of not less than 60 days. If the Unitholders receiving such notice have not sold the specified number of Trust Units or provided the Trustees with satisfactory evidence that the beneficial owners are not non-residents within such period, the Trustees may on behalf of such Unitholders sell such Trust Units and, in the interim, shall suspend the voting and distribution rights attached to such Trust Units. Upon such sale, the affected Unit Holder shall cease to be a holder of the Trust Units that are sold and the rights of the Unit Holder in respect thereof shall be limited to receiving the net proceeds of sale upon surrender of the certificates representing such Trust Units.

Amendments to Declaration of Trust

The Declaration of Trust may be amended or altered from time to time by Special Resolution. The Trustees may, without the approval of the Unitholders, authorize certain amendments to the Declaration of Trust, including amendments:

1. for the purpose of ensuring continuing compliance with the applicable laws, regulations, requirements or policies of any governmental authority having jurisdiction over the Trustees or the Trust;
2. which, in the opinion of the Trustees, provide additional protection for the Unitholders;
3. to remove any conflicts or inconsistencies in the Declaration of Trust or to make minor corrections that are, in the opinion of the Trustees, necessary or desirable and not materially prejudicial to the rights of Unitholders; or
4. which, in the opinion of the Trustees, are necessary or desirable as a result of changes in taxation laws.

Termination of the Trust

The Trust has been established for a term of 80 years from February 17, 1997. The Declaration of Trust provides that unless the Trust is earlier terminated or extended by vote of the Unitholders, the Trustees shall commence to wind up the affairs of the Trust on such date as may be determined by the Trustees, being not more than two years prior to the end of the term of the Trust. In addition, at any time prior to the expiry of the term of the Trust, the Unitholders may pass a Special Resolution to terminate the Trust, following which the Trustees are obligated to commence to wind up the affairs of the Trust.

Take-over Bids

The Declaration of Trust contains provisions to the effect that if a take-over bid is made for Trust Units and not less than 90% of the Trust Units (other than Trust Units held at the date of the take-over bid by or on behalf of the offeror or associates or affiliates of the offeror) are taken up and paid for by the offeror, the offeror will be entitled to acquire the Trust Units held by Unitholders who did not accept the offer on the terms offered by the offeror.

Reporting to Unitholders

The Trust will furnish to the Unitholders such financial statements (including quarterly and annual financial statements) and other reports as are from time to time required by applicable law, including prescribed forms needed for the completion of Unitholders' tax returns under the Tax Act and equivalent provincial legislation. TimberWest has undertaken to provide the Trust and applicable regulatory authorities with: (i) a report of any material change that occurs in the affairs of TimberWest in form and content that it would file with applicable regulatory authorities if it were a reporting issuer, and (ii) all financial statements that it would be required to file with applicable regulatory authorities if it were a reporting issuer under applicable securities laws. All such reports and statements will be provided to the applicable regulatory authorities within the time periods prescribed under applicable securities laws and will also be provided to the Trust in a timely manner so as to permit the Trust to comply with the continuous disclosure requirements relating to reports of material changes in its affairs and the delivery of financial statements as required under applicable securities laws. The Trust will distribute the financial statements it receives from TimberWest as a supplement to the financial statements of the Trust that are sent to Unitholders.

Prior to each meeting of Unitholders, the Trust will provide the Unitholders (along with notice of such meeting) information similar to that required to be provided to shareholders of a British Columbia public company.

CAPITALIZATION OF THE TRUST

The following table sets out the consolidated capitalization of the Trust as at March 31, 1997. It also sets out, on a pro forma basis, the consolidated capitalization of the Trust after giving effect to this offering.

	Authorized	Outstanding as at March 31, 1997	Outstanding as at March 31, 1997 after giving effect to the issue of Trust Units under this offering
Trust Units	unlimited	$100 (10 Trust Units)	$335,379,500 (33,537,950 Trust Units)

TRUSTEES

The following table sets out the name, municipality of residence and principal occupation for the past five years of each Trustee:

Name and Municipality of Residence	Principal Occupation
James M.I. Bruce . . . . Vancouver, British Columbia	Managing Director, TD Securities Inc. (investment dealers). Prior to February, 1997 Mr. Bruce was a Vice President and a Director of RBC Dominion Securities Inc.
R. Keith Purchase . . . . West Vancouver, British Columbia	President and Chief Executive Officer, TimberWest. Previously, Managing Director, Tasman Pulp and Paper Company Limited (New Zealand).

The Trustees intend to appoint C. Francis Murphy Q.C., lawyer and Counsel, Farris Vaughan Wills & Murphy (a law firm) as an additional Trustee before the Acquisition Closing.

The Trustees will be entitled to reasonable compensation for services rendered and to be reimbursed for reasonable expenses incurred by them in connection with their services as Trustees. Initial annual compensation will be $ ● per Trustee per year plus $ ● for each meeting attended and an additional $ ● per year for the Chairman.

USE OF PROCEEDS

The net proceeds of $332,879,500 from the issue of the Special Deposit Warrants and Trust Units will be used by the Trust to acquire, for an aggregate consideration of $332,879,500, common shares and Notes of TAL. The net proceeds to TAL from the issuance of common shares and Notes to the Trust, after the Agent's Commission and estimated expenses of the offering, will be approximately $325,237,300. TAL will use these funds together with the loans described under "Share and Loan Capital of TimberWest — Operating Loan, Term Loan, Bridge Loan and Senior Subordinated Bridge Loan" to acquire of all of the issued shares of TimberWest. See "Acquisition of TimberWest", and to pay associated fees and expenses. The purchase price for such securities has been determined through arm's length negotiations between TimberWest and TAL and FCCL and TAL. The proceeds of $769,500 from the issue of 76,950 Trust Units to a subsidiary of the Canadian chartered bank providing financing to TimberWest will be used by the Trust to subscribe for TimberWest Shares and Notes, and TimberWest will use the funds received therefrom to pay a fee of $769,500 to this subsidiary for such financing.

PLAN OF DISTRIBUTION AND PRIVATE PLACEMENT

This prospectus qualifies for distribution 33,461,000 Trust Units to be issued upon exercise or deemed exercise of the 33,461,000 Special Deposit Warrants that were issued and sold at a price of $10.00 per Special Deposit Warrant by way of private placement. The Special Deposit Warrants were sold to investors on a private placement basis pursuant to an agency agreement dated as of March 21, 1997 between the Trust and Goepel Shields & Partners Inc. (the "Agent") at a price of $10.00 for each Special Deposit Warrant payable as to $2.00 per Special Deposit Warrant (the "First Instalment") on the date of issue of the Special Deposit Warrants and $8.00 per Special Deposit Warrant (the "Final Instalment") on or before 12:00 noon (Vancouver time) on the business day immediately prior to the day of the Acquisition Closing. The Special Deposit Warrants were issued under a Warrant Indenture (the "Warrant Indenture") dated as of March 21, 1997 between the Trust and Montreal Trust Company of Canada, as Warrant Agent. The commission due to the Agent for the private placement is $6,692,200, payable by TimberWest following the Acquisition Closing. No additional commission will be paid in connection with the issue of Trust Units on exercise of Special Deposit Warrants. The expenses associated with the issue and distribution of the Special Deposit Warrants and the Trust Units will be paid by TimberWest following the Acquisition Closing.

The Trust has covenanted under the Warrant Indenture that, among other things, it will use its best efforts to expeditiously obtain receipts for a final prospectus (the "Final Prospectus") from the securities regulatory authorities in the Provinces of British Columbia, Manitoba and Ontario (the "Jurisdictions") for the purpose of qualifying, under the applicable laws of such jurisdictions, the distribution of the Trust Units issuable upon the exercise of the Special Deposit Warrants.

Provided the Final Instalment has been paid to the Trust on or before the Final Instalment Deadline, the Special Deposit Warrants shall be automatically exercised at 4:30 p.m. (Vancouver time) on the earlier of: (i) December 31, 1997; and (ii) the first business day after the date upon which a receipt for a final prospectus is issued by the last of the securities regulatory authorities in the Jurisdictions qualifying the distribution of the Trust Units to be issued upon exercise of the Special Deposit Warrants.

The gross proceeds of $65,322,000 from the First Instalment of $2.00 paid upon the issuance of 32,661,000 Special Deposit Warrants on March 27, 1997 were placed in escrow to be held by the Warrant Agent and will be released to the Trust only in accordance with and subject to the Warrant Indenture upon receipt by the Warrant Agent of: (i) written confirmation from counsel to TAL that all conditions for the completion of the Acquisition have been fulfilled or waived, other than the payment of money on the Acquisition Closing; and (ii) an opinion of counsel to the Trust to the effect that the Trust qualifies or will qualify on the Acquisition Closing as a "mutual fund trust" within the meaning of the Tax Act (and in giving such opinion, counsel to the Trust may rely upon a certificate of the Agent as to the number of holders, dispersal of ownership, and public trading of, Trust Units and may assume that the Trust will file the appropriate election under the Tax Act. If conditions (i) and (ii) referred to above are not fulfilled prior to 4:30 p.m. (Vancouver time) on the later of May 30, 1997 or such later date up to June 30, 1997 as the Trust may specify, in accordance with the Warrant Indenture, by notice in writing to the Warrant Agent, each holder's Special Deposit Warrants will be repurchased for an amount equal to the amount paid therefor, together with a *pro rata* share of the interest earned on the First Instalment of $2.00 per Special Deposit Warrant placed in escrow with the Warrant Agent from the date of closing of the Private Placement to and including the date immediately preceding the date of repurchase.

In addition to the 32,661,000 Special Deposit Warrants issued on March 27, 1997, on March 21, 1997 Goepel Shield & Partners Inc. acquired 800,000 Special Deposit Warrants (representing 2.4% of the issue of Special Deposit Warrants), for a purchase price of $8,000,000, all of which was paid to the Trust at the time of issue of such Special Deposit Warrants and these funds were invested in common shares and notes of TAL.

Until May 1, 1997 the trustees of the Trust were Kenneth A. Shields and Donald M. Shumka, directors and officers of the Agent. On March 2 , 1997 the Trust entered into an agreement with the Agent under which the Agent agreed to provide advisory services to the Trust, and the Trust agreed to pay a fee of $2,500,000 to the Agent upon the Acquisition Closing.

On March 2, 1997 TAL entered into an agreement with TD Securities Inc. under which TD Securities Inc. agreed to provide advisory services to TAL and TAL agreed to pay a fee of $2,500,000 to TD Securities Inc. upon the Acquisition Closing.

This Prospectus also qualifies the distribution of 76,950 Trust Units to be subscribed for by a subsidiary of the Canadian chartered bank providing financing to TimberWest. See "Share and Loan Capital of TimberWest — Operating Loan, Term Loan, Bridge Loan and Senior Subordinated Bridge Loan".

There is no market through which the Special Deposit Warrants or the Trust Units could be sold. The offering price for the Special Deposit Warrants and the Trust Units was based on the price to be paid by TAL pursuant to the Acquisition for the issued common shares of TimberWest, which was determined by negotiation between TimberWest and TAL and FCCL and TAL.

It is expected that certificates for Trust Units will be available for delivery on or about the date of the Acquisition Closing, which is expected to take place on or about June 15, 1997 but not later than June 30, 1997.

CANADIAN FEDERAL INCOME TAX CONSIDERATIONS

In the opinion of McCarthy Tétrault and Bull, Housser & Tupper (together, "Counsel"), the following summary describes the principal Canadian federal income tax considerations pursuant to the Tax Act and the regulations thereunder generally applicable to a Unitholder who acquires Trust Units evidenced by Instalment Receipts pursuant to this offering and who, for purposes of the Tax Act, is resident in Canada, holds the Trust Units as capital property and deals at arm's length with the Trust and the Underwriters. Generally, Trust Units will be considered to be capital property to a Unitholder provided the Unitholder does not hold the Trust Units in the course of carrying on a business and has not acquired them in one or more transactions considered to be an adventure in the nature of trade. Certain Unitholders who might not otherwise be considered to hold their Trust Units as capital property may, in certain circumstances, be entitled to have them treated as capital property by making the election permitted by subsection 39(4) of the Tax Act. This summary is not applicable to (i) a Unitholder that is a "financial institution", as defined in the Tax Act for purposes of the mark-to-market rules, (ii) to a Unitholder an interest in which would be a "tax shelter investment" as defined in the Proposed Amendments described below or (iii) to a Unitholder that is a "specified financial institution" as defined in the Tax Act, and any such Unitholder should consult its own tax advisor with respect to an investment in Trust Units.

This summary is based upon the provisions of the Tax Act and the Income Tax Regulations (the "Regulations") in force as of the date hereof, all specific proposals to amend the Tax Act and the Regulations that have been publicly announced prior to the date hereof (the "Proposed Amendments") and Counsels' understanding of the current published administrative policies of Revenue Canada. No advance income tax ruling has been sought respecting this offering.

This summary is not exhaustive of all possible Canadian federal income tax considerations and, except for the Proposed Amendments, does not take into account or anticipate any changes in the law, whether by legislative, governmental or judicial action, nor does it take into account provincial, territorial or foreign tax considerations, which may differ significantly from those discussed herein.

This summary is of a general nature only and is not intended to be legal or tax advice to any prospective purchaser of Trust Units or any Unitholder. Consequently, prospective Unitholders should consult their own tax advisors with respect to their particular circumstances.

Status of the Trust

The Trust qualifies as a "unit trust" as defined by the Tax Act, and this summary assumes that the Trust will also qualify on closing, and will continue to qualify thereafter, as a "mutual fund trust" as defined in the Tax Act. In order to so qualify, there must be at least 150 Unitholders each of whom owns not less then one "block" of Trust Units having a fair market value of not less than $500 and the appropriate election is filed under the Tax Act. A "block" of Trust Units means 100 Trust Units if the fair market value of one Trust Unit is less than $25. In addition, the undertaking of the Trust must be restricted to the investing of its funds in personal property, the acquiring, holding, maintaining, improving, leasing or managing of any real property (or interest in real property) that is capital property of the Trust, or a combination of these activities. The Trust will be deemed not to be a mutual fund trust if it can reasonably be considered that the Trust, having regard to all the circumstances, was established or is maintained primarily for the benefit of non-resident persons. It is intended, and this summary assumes, that these requirements will be satisfied and that the Trust is not established nor will be maintained primarily for the benefit of non-resident persons so that the Trust will continue to qualify as a mutual fund trust at all relevant times. In the event the Trust were not to qualify as a mutual fund trust, the income tax considerations would in some respects be materially different from those described below.

If the Trust ceases to qualify as a mutual fund trust, the Trust Units will cease to be qualified investments for RRSPs, RRIFs and DPSPs ("Plans"). Where, at the end of a month, a Plan holds Trust Units that are not qualified investments, the Plan must, in respect of that month, pay a tax under Part XI.1 of the Tax Act equal to 1% of the fair market value of the Trust Units at such time such Trust Units (or Instalment Receipts) were acquired by the Plan. In addition, where a trust governed by an RRSP or an RRIF holds Trust Units that are not qualified investments, the trust will become taxable on income attributable to the Trust Units while they are not qualified investments. If the Trust ceases to qualify as a Mutual Fund Trust, the Trust will be required to pay a tax under Part XII.2 of the Tax Act. The payment of Part XII.2 tax by the Trust may have adverse tax consequences for certain Unitholders, including nonresident persons.

Taxation of the Trust

The Trust is subject to taxation in each taxation year on its income for the year, including net realized capital gains, less the portion thereof that is paid or payable in the year to Unitholders and which is deducted by the Trust in computing its income for purposes of the Tax Act. An amount will be considered to be payable to a Unitholder in a taxation year if it is paid in the year by the Trust or the Unitholder is entitled in that year to enforce payment of the amount. The taxation year of the Trust is the calendar year.

The Trust will be required to include in its income for each taxation year all interest on the Notes that accrues to it to the end of the year, or becomes receivable or is received by it before the end of the year, except to the extent that such interest was included in computing its income for a preceding taxation year. During the first six taxation years of the Trust after closing, the Trust may deduct from its income for the year a portion of the expenses of the issue paid by the Trust from the proceeds of this offering. Such portion of issue expenses deductible by the Trust in a taxation year is determined pursuant to the Tax Act and is generally equal to that portion of 20% of the total issue expenses that the number of days in the Trust's taxation year is of 365 days, to the extent that the issue expenses were not otherwise deductible in a preceding year.

In computing its income for tax purposes, the Trust may deduct reasonable administrative expenses. Payments to the Trust by TimberWest as a reduction of the paid-up capital in respect of the TimberWest Shares, to the extent of the paid-up capital of such TimberWest Shares, will not be included in computing the income of the Trust, but will be deducted in computing the adjusted cost base of the TimberWest Shares held by the Trust.

Provided that the appropriate designations are made by the Trust, all dividends which would otherwise be included in its income as dividends received on the TimberWest Shares will be deemed to have been received by Unitholders and not to have been received by the Trust.

Under the Declaration of Trust, an amount equal to all of the interest and dividend income of the Trust for each year, together with the taxable and non-taxable portion of any capital gains realized by the Trust in the year (excluding capital gains which may be realized by the Trust upon a distribution in specie of Notes from redemption of a Trust Unit) net of the Trust's expenses will be payable in the year to the holders of the Trust Units by way of cash distributions, subject to the exceptions described below.

Under the Declaration of Trust, income of the Trust may be used to finance cash redemptions of Trust Units, and accordingly such income so utilized will not be payable to holders of the Trust Units by way of cash distributions but rather will be payable in the form of additional Trust Units ("Reinvested Trust Units").

A distribution by the Trust to a Unitholder of TimberWest Shares and Notes upon a redemption of Trust Units will be treated as a disposition by the Trust of the TimberWest Shares and Notes so distributed, for proceeds of disposition equal to their fair market value (excluding any accrued interest on the Notes) and may give rise to a capital gain (or a capital loss) to the Trust. In addition, the Trust will be required to include in its income any interest that had accrued on the Notes so disposed of up to the date of distribution to the extent not otherwise included in its income for the year of disposition or a previous year. Where the Trust disposes of TimberWest Shares and realizes a capital loss, the amount of the loss will be reduced to the extent of any taxable dividends on such shares which are designated by the Trust to have been received by a Unitholder that is a corporation. The Trust will be entitled for each taxation year to reduce (or receive a refund in respect of) its liability, if any, for tax on its net realized taxable capital gains by an amount determined under the Tax Act based on the redemption or retraction of Trust Units during the year (the "Capital Gains Refund"). In certain circumstances, the Capital Gains Refund in a particular taxation year may not completely offset the Trust's tax liability for such taxation year which may arise upon distributions of TimberWest Shares and Notes in connection with the redemption of Trust Units. The Declaration of Trust accordingly provides that income of the Trust which is required to satisfy any tax liability on the part of the Trust shall not be payable to the Unitholders.

For purposes of the Tax Act, the Trust intends to deduct in computing its income the full amount available for deduction in each year to the extent of its taxable income for the year otherwise determined. Therefore, as a result of such deduction from income and the Trust's entitlement to a Capital Gains Refund, it is expected that the Trust will not be liable for any material amount of tax under the Tax Act.

Taxation of the Unitholders

A Unitholder will generally be required to include in computing income for a particular taxation year the Unitholder's portion of the net income of the Trust for a taxation year, including net realized taxable capital gains, that is paid or payable to the Unitholder in that particular taxation year, notwithstanding that any such amount is payable in Reinvested Trust Units.

Provided that appropriate designations are made by the Trust, such portions of its net taxable capital gains and taxable dividends as are paid or payable to a Unitholder will effectively retain their character and be treated as such in the hands of the Unitholder for the purposes of the Tax Act.

Any amount in excess of the net income of the Trust that is paid or payable by the Trust to a Unitholder in a year should not generally be included in the Unitholder's income for the year. However, where such an amount becomes payable to a Unitholder, other than as proceeds of disposition of Trust Units, this will give rise to a deduction in the adjusted cost base of the Trust Units held by such Unitholder, except to the extent that the amount either was included in the income of the Unitholder or was the Unitholder's share of the non-taxable portion of the net capital gains of the Trust, the taxable portion of which was designated by the Trust in respect of the Unitholder.

The adjusted cost base to a Unitholder of a Trust Unit will include all amounts paid or payable by the Unitholder for the Trust Unit. Reinvested Trust Units issued to a Unitholder in lieu of a cash distribution of income will have an adjusted cost base equal to the amount of such income, and this adjusted cost base will be required to be averaged with the adjusted cost base of all other Trust Units held by the Unitholder in order to determine the respective adjusted cost base of each such Trust Unit.

Upon the disposition or deemed disposition by a Unitholder of a Trust Unit, whether on redemption or otherwise, the Unitholder will generally realize a capital gain (or a capital loss) equal to the amount by which the proceeds of disposition (excluding any amount payable by the Trust which represents an amount that must otherwise be included in the Unitholder's income as described above) are greater (or less) than the aggregate of the Unitholder's adjusted cost base of the Trust Unit and any reasonable costs of disposition. Where Trust Units are redeemed and TimberWest Shares and Notes are distributed to the Unitholder, the proceeds of disposition to the Unitholder of the Trust Units will be equal to the fair market value of the TimberWest Shares and Notes so distributed (excluding any amount payable by the Trust which must otherwise be included in the Unitholder's income, as described above).

Three quarters of any capital gain realized by a Unitholder and the amount of any net taxable capital gains designated by the Trust in respect of a Unitholder will be included in the Unitholder's income under the Tax Act for the year of disposition as a taxable capital gain. To the extent that the adjusted cost base of a Trust Unit would otherwise be less than zero, the negative amount will be deemed to be a capital gain realized by the Unitholder from the disposition of the Trust Unit from which the negative amount arises. Subject to certain specific rules in the Tax Act, three quarters of any capital loss realized on the disposition of a Trust Unit may be deducted against any capital gains realized by the Unitholder in the year of disposition, in the three preceding taxation years or in any subsequent taxation years.

The adjusted cost base of any TimberWest Shares and Notes distributed to a Unitholder by the Trust upon a redemption of Trust Units, or upon the termination of the Trust, will be equal to the fair market value of the TimberWest Shares and Notes at the time of the distribution less, in the case of the Notes, any accrued interest thereon. Such a Unitholder will be required to include in income interest on the Notes (including interest that had accrued to the date of the acquisition of the Note by the Unitholder) in accordance with the provisions of the Tax Act. To the extent that the Unitholder is required to include in income any interest that had accrued to the date of the acquisition of the Note, an offsetting deduction will be available.

Taxable capital gains realized by a Unitholder that is an individual may give rise to alternative minimum tax depending on the Unitholder's circumstances.

Tax Exempt Unitholders

Subject to the specific provisions of any particular plan, the Trust Units will be qualified investments for trusts governed by Plans. Plans will generally not be liable for tax in respect of any distributions received from the Trust or any capital gain realized on the disposition of any Trust Units. Where a Plan receives TimberWest Shares and Notes as a result of a redemption of Trust Units, such TimberWest Shares and Notes may not be qualified investments for the Plans and could give rise to adverse consequences to the Plans (or in the case of registered retirement savings plans, to the annuitants thereunder). Accordingly, Plans that own Trust Units should consult their own tax advisors before deciding to exercise the redemption rights thereunder. Trust Units will not constitute foreign property for Plans, registered pension plans or other persons subject to tax under Part XI of the Tax Act.

If the Trust ceases to qualify as a mutual fund trust, the Trust Units will cease to be qualified investments for the Plans. Where at the end of any month a Plan holds Trust Units that are not qualified investments, the Plan must, in respect of that month, pay a tax under Part XI.I of the Tax Act equal to 1% of the fair market value of the Trust Units at the time such Trust Units were acquired by the Plan.

RISK FACTORS

The Trust is a limited-purpose trust which, through its ownership, directly or indirectly, of the Notes and TimberWest Shares, is entirely dependent upon the operations and assets of TimberWest for its revenue. Accordingly, the Trust is dependent upon the ability of TimberWest to pay interest on the Notes and pay dividends and make other distributions to the Trust upon the TimberWest Shares.

The following are certain factors relating to the business of the Trust which prospective investors should consider carefully before deciding whether to purchase Trust Units. The following information is a summary only and is qualified in its entirety by reference to, and must be read in conjunction with, the detailed information appearing elsewhere in this prospectus.

Risks Inherent in Investment in Trust Units

Investment Eligibility

The Trust will endeavour to ensure that the Trust Units continue to be qualified investments for trusts governed by RRSPs, RRIFs and DPSPs under the Tax Act (collectively, "Plans"). If the Trust ceases to qualify as a mutual fund trust, the Trust Units will cease to be qualified investments for Plans. Where at the end of any month a Plan holds Trust Units that are not qualified investments, the Plan must, in respect of that month, pay a tax under Part XI.1 of the Tax Act equal to 1% of the fair market value of the Trust Units at the time such Trust Units were acquired by the Plan. One of the ways in which the Trust could cease to qualify as a mutual fund trust would be if non-residents of Canada within the meaning of the Tax Act were to become the beneficial owners of a majority of the Trust Units. There can be no assurance that income tax laws and the treatment of mutual fund trusts will not be changed in a manner which adversely affects Unitholders.

Nature of Trust Units

Securities such as the Trust Units are hybrids in that they share certain attributes common to both equity securities and debt instruments. The Trust Units are dissimilar to debt instruments in that there is no principal amount owing to Unitholders by the Trust. The Trust Units do not represent a traditional investment and should not be viewed by investors as shares in TimberWest. A Trust Unit represents a fractional interest in the Trust. The Trust's sole assets will be the TimberWest Shares, the Notes and other permitted investments. The trading price of Trust Units at any time will be affected by general economic and market conditions including prevailing interest rates. There can be no assurance as to the amount of available cash flow to be generated by TimberWest and paid to the Trust. The actual amounts distributed will depend on numerous factors including the profitability of TimberWest, fluctuations in working capital and capital expenditures, and other factors beyond the control of TimberWest and the Trust.

Unitholder Limited Liability

The Declaration of Trust provides that no Unitholder will be subject to any liability in connection with the Trust or its obligations and affairs. The Declaration of Trust also provides that all written instruments signed by or on behalf of the Trust shall contain a provision to the effect that such obligation will not be binding upon Unitholders personally. Personal liability may arise in respect of claims against the Trust that do not arise under contracts, including claims in tort, claims for taxes and possibly certain other statutory liabilities. The possibility of any personal liability of this nature arising is considered unlikely.

The operations of the Trust will be conducted, upon the advice of counsel, in such a way and in such jurisdictions as to avoid as far as reasonably possible any material risk of liability on the Unitholders for claims against the Trust.

Absence of Prior Public Market

Prior to this offering there has been no public market for the Trust Units. The price paid for the Special Deposit Warrants may bear no relationship to the price at which the Trust Units may trade in the public market subsequent to the Acquisition Closing. If TimberWest Shares and Notes are used to satisfy the redemption rights of a Unitholder, no public market will exist for such TimberWest Shares and Notes and such TimberWest Shares and Notes may not readily be disposed of.

Dependence upon TimberWest

The Trust is a limited purpose trust that will be entirely dependent upon the operations and assets of TimberWest through its ownership of the TimberWest Shares and Notes. Accordingly, the distributions to the Trust Unitholders will be dependent upon the ability of TimberWest to pay its interest obligations under the Notes and to declare and pay dividends or return capital in respect of the TimberWest Shares.

Cash Distributions Are Not Guaranteed and May Fluctuate with TimberWest's Performance

Although the Trust intends to distribute the interest and dividends and other contributions received by the Trust from TimberWest (less expenses and amounts, if any, paid by the Trust in connection with the redemption of Trust Units), there can be no assurance regarding the amounts of income to be generated by TimberWest and paid to the Trust. The actual amount paid in respect of the Notes and the TimberWest Shares will depend upon numerous factors including profitability, required interest and principal payments on the Loans, restrictions contained in agreements in respect of the Loans, fluctuations in working capital and capital expenditures reserves, prevailing economic conditions and financial business and other factors beyond the control of the Trust and TimberWest. Cash distributions are not guaranteed and will fluctuate with TimberWest's performance. TimberWest has the discretion to establish cash reserves for the proper conduct of its business. Adding to these reserves in any year will reduce the amount of cash available for distribution in that year. As a result of these and other factors, there can be no assurance regarding the actual amounts of cash distributed by the Trust. The ability of TimberWest to pay interest on the Notes or make distributions on the TimberWest Shares will also be limited by, and during the existence of events of default under, TimberWest's agreements in respect of the Loans.

The Trust may Issue Additional Units

The directors of TimberWest have the authority to cause the Trust to issue additional Units for such consideration and on such terms and conditions as are established by such directors without the approval of any Unitholder or the Trustees.

Risks Inherent in the Business of TimberWest

Forest Product Prices and Currency Risk

The majority of the timber harvested from the Private Timberlands will be sold at prices set by the Vancouver log market. Pricing in this market is affected by the prices of the ultimate forest products that are produced from British Columbia coastal logs. The earnings of TimberWest will be subject to variations in log prices and therefore will be subject to variations in forest products prices. Prices for processed lumber are generally quoted and paid in United States dollars.

TimberWest's expenses are in, and TimberWest and the Trust will report its results of operations in, Canadian Dollars. TimberWest may have to undertake hedging activities to protect against currency fluctuations. There is no assurance that TimberWest will, or will be able to hedge, or will be successful at hedging any such exposure without incurring a loss. The results of operations of TimberWest will be affected by changes in the exchange rates between the Canadian dollar and the United States dollar.

Resource Risks

The Private Timberlands and Crown timber tenures are subject to the risks associated with standing forests. The primary risks are posed by forest fires, insect infestation, and disease. TimberWest has endeavoured to minimize these risks through prevention and early detection. Fire protection is provided by TimberWest through ground-based suppression crews and a fleet of tanker aircraft jointly owned with two other forest products companies and under contract with the Ministry of Forests. Over the last several decades, losses on the Private Timberlands and Crown timber tenures due to fire, insect infestation and disease have been negligible.

Labour Relations

TimberWest employs a unionized workforce. A collective agreement with the CEP expired on April 30, 1997 and a three-year collective agreement with the IWA expires on June 14, 1997. Strikes or lockouts at the operations of TimberWest or its customers could restrict TimberWest's ability to harvest, process or sell timber.

Government Regulation

The Forest Practices Code currently applies to private lands only if they are located within a TFL. The Forest Practices Code contains provisions permitting the promulgation of regulations with respect to forest practices on private lands outside a TFL. Currently, no such regulations exist. However, if such regulations were promulgated, TimberWest could experience increased harvesting costs and reduced inventories of merchantable timber on the Private Timberlands.

TimberWest's ability to implement its business strategy over the long term and its results of operations will depend upon a number of factors, many of which are beyond its control. These factors include general industry conditions, prices and supply and demand for logs, lumber and other wood products, competition from other supplying regions and substitute products and seasonality. Environmental and other concerns and governmental policies have substantially reduced the volume of timber available to be harvested from Crown timber tenures.

Cyclicality of Forest Products Industry Will Affect TimberWest's Results of Operations

TimberWest's results of operations are, and will continue to be, affected by the cyclical nature of the forest products industry. Prices and demand for logs and manufactured wood products have been, and in the future can be expected to be, subject to cyclical fluctuations. The demand for logs and wood products is primarily affected by the level of new residential construction activity and, to a lesser extent, repair and remodelling activity and other industrial uses, which are subject to fluctuations due to changes in economic conditions, interest rates, population growth, weather conditions and other factors. Decreases in the level of residential construction activity generally reduce demand for logs and wood products, resulting in lower revenues, profits and cash flows. However, TimberWest intends to manage the Private Timberlands and, to the extent permitted, the AAC on the Crown timber tenures in such a manner that would alleviate, to the extent possible, variations in cash flow due to this risk.

TimberWest Experiences Significant Competition

The forest products industry is highly competitive in terms of price and quality. Many of TimberWest's competitors have substantially greater financial and operating resources than TimberWest. Wood products are subject to increasing competition from a variety of substitute products, including non-wood and engineered wood products. Lumber and log markets are subject to competition from other worldwide suppliers. To the extent there is a significant increase in competitive pressures, TimberWest's results of operations could be materially and adversely affected.

TimberWest's Ability to Harvest Timber May be Subject to Limitations

Revenues, net income and cash flow from the operations of TimberWest are dependent to a significant extent on its continued ability to harvest timber at adequate levels. The ability of TimberWest to accelerate the harvest of significant amounts of timber from the Private Timberlands in order to fund distributions to Unitholders may be limited by weather conditions, timber growth cycles, access limitations and regulatory requirements. There can be no assurance that TimberWest will achieve harvest levels in the future necessary to maintain or increase revenues, net income and cash flows.

Weather conditions, timber growth cycles, access limitations and regulatory requirements associated with the protection of wildlife and water resources may restrict harvesting of the timberlands, as may other factors, including settlement of aboriginal treaty claims in British Columbia and damage by fire, insect infestation, disease, prolonged drought and natural disasters. As is typical in the forest products industry, TimberWest does not maintain insurance coverage with respect to damage to its timberlands. TimberWest does, however, maintain insurance for loss of logs due to fire and other occurrences following harvesting.

The Ability of TimberWest to Sell Logs for Export is Limited

The business of TimberWest includes the sale of logs from its Private Timberlands for export, which business is substantially dependent on market and economic conditions in the major Asian economies, particularly Japan, and may be affected by, among other things, fluctuations in exchange rates, the availability of substitute products and changes in building practices. Historically, export grade logs have been sold at a premium over the prices that would have been received if the logs had been sold in the domestic market. British Columbia legislation effectively constrains the export of logs originating from Crown timber tenures.

TimberWest is Subject to Federal and Provincial Environmental Regulation

The operations of TimberWest are subject to regulation under the various federal and provincial environmental laws. Violations of various statutory and regulatory programs that apply to the operations of TimberWest can result in civil penalties, remediation expenses, natural resource damages, potential injunctions, cease and desist orders and criminal penalties. Laws and regulations protecting the environment have generally become more stringent in recent years and could become more stringent in the future.

Significant Increases in Provincial Timber Supply May Affect the Results of Operations

Various factors, including environmental concerns, have limited, and are likely to continue to limit, the amount of timber available from Crown lands, which historically have been major suppliers of timber to the Canadian forest products industry. The allocation of Crown timber to the forest products industry is periodically set by government policy. This policy reflects current information concerning forest growth, silvicultural investments, removals of land for parks, and constraints on timber availability due to the Forest Practices Code. The Ministry of Forest has identified that, over the period 1992 to 1996, the conventional coniferous, sawlog component of the provincial AAC attributable to the coast of British Columbia (Vancouver Forest Region) has declined approximately 8% from 21.7 million cubic metres to 20 million cubic metres. While any substantial increase in supply could result in reduced prices for logs, lumber and other wood products, which could have a material adverse effect on TimberWest, the British Columbia government has adopted a policy of managing a transition to a lower and sustainable long-term harvest level over the next few decades.

Risks of Financing

In order to complete the Acquisition TAL has arranged the Term Loan, Bridge Loan and Senior Subordinated Bridge Loan which, following the Acquisition Closing, will become liabilities and obligations of TimberWest. See "Share and Loan Capital of TimberWest — Operating Loan, Bridge Loan and Senior Subordinated Bridge Loan". TimberWest intends to repay the Bridge Loan and Senior Subordinated Bridge Loan from the proceeds of the issue of additional Notes and TimberWest Shares to the Trust, which additional Notes and TimberWest Shares will be paid for by the Trust from the proceeds of the issue of additional Trust

Units by the Trust. The ability of the Trust to issue additional Trust Units, or additional Trust Units in an amount sufficient to enable TimberWest to repay the Bridge Loan and the Senior Subordinated Bridge Loan, is dependent upon conditions in the financial markets prevailing at the time of the proposed issue. There is no assurance that these additional Trust Units can be issued. If the Bridge Loan and the Senior Subordinated Bridge Loan are not repaid within nine months of the Acquisition Closing, the cash flow of TimberWest will be adversely affected as a result of the continuance of higher interest rates payable by TimberWest upon these loans and the requirement that the principal amount of these loans and the Term Loan be repaid by equal quarterly instalments over a six-year term. In addition, if an event of default in respect of the Loans occurs, payment of interest on the Notes cannot be made, and the principal amount of the Notes cannot be accelerated for 36 months (or if the Bridge Loan has not been repaid, for a period of 72 months). The Term Loan is repayable at the end of five years from the Acquisition Closing and TimberWest will be required to refinance this loan at that time. The ability of TimberWest to make principal and interest payments on the Loans will depend on future performance, which is subject to many factors, some of which will be outside TimberWest's control. In addition, the agreements to be entered into in respect of the Loans will contain restrictive covenants that limit the ability of TimberWest to incur additional indebtedness. Payment of principal and interest on the TimberWest indebtedness, as well as compliance with the requirements and covenants of the agreements governing such indebtedness, may limit TimberWest's ability to make distributions to the Trust. The Loans (and the agreements to be entered into by TimberWest in respect of the Loans) may have an adverse effect upon the amounts available for payment of interest on the Notes or distribution on the TimberWest Shares and, as a result, the amounts available for distribution by the Trust to Unitholders.

Tax Considerations

For a general discussion of the expected federal income tax consequences of acquiring, owning and disposing of Trust Units, see "Canadian Federal Income Tax Considerations." No ruling has been requested from Revenue Canada with respect to federal income tax consequences affecting the Trust or TimberWest. Accordingly, Revenue Canada may adopt positions that differ from counsel's conclusions expressed herein.

ELIGIBILITY FOR INVESTMENT

In the opinion of McCarthy Tétrault and Bull, Housser & Tupper, as at the date of this prospectus, eligibility of the Trust Units for investment by purchasers to whom the following statutes apply is, in certain cases, governed by criteria which such purchasers are required to establish as policies or guidelines pursuant to the applicable statute (and, where applicable, the regulations thereunder), and is subject to compliance with the prudent investment standards and general investment provisions provided therein:

Insurance Companies Act (Canada)
Insurance Act (Manitoba)
Trust and Loan Companies Act (Canada)
Pension Benefits Standard Act, 1985 (Canada)
Pension Benefits Act (Ontario)
Financial Institutions Act (British Columbia)
Pension Benefit Standards Act (British Columbia)

In the opinion of such counsel, subject to assumptions as to the filing of the appropriate election under the Tax Act and as to the number of Trust Unitholders and the dispersal of ownership of Trust Units described under "Canadian Federal Income Tax Considerations" being met on or before the end of the first taxation year of the Trust and on a continuous basis thereafter, and to the provisions of any particular Plan, if, as and when the Trust Units are listed on a prescribed stock exchange in Canada, the Trust Units will also be qualified investments for trusts governed by registered retirement savings plans, registered retirement income funds and deferred profit sharing plans under the Tax Act.

PROMOTER AND INTEREST OF MANAGEMENT AND OTHERS IN MATERIAL TRANSACTIONS

TAL may be considered to be the promoter of the Trust by reason of its initiative in organizing the business and affairs of the Trust.

LEGAL MATTERS

Certain legal matters relating to the issuance of the Trust Units to the public will be passed upon at Closing by McCarthy Tétrault, on behalf of TAL and the Trust, and by Bull, Housser & Tupper, on behalf of the Agent.

AUDITOR, REGISTRAR AND TRANSFER AGENT

The auditors of the Trust are KPMG, Chartered Accountants, 777 Dunsmuir Street, Vancouver, British Columbia, V7Y 1K3.

The registrar and transfer agent for the Trust Units is The R-M Trust Company at its principal offices in Vancouver and Toronto.

MATERIAL CONTRACTS

Set out below are agreements that may be considered material to the Trust:

1. Declaration of Trust. See "Description of the Trust — Administration of the Trust".
2. Note Indenture. See "Share and Loan Capital of TimberWest — Notes of TimberWest".
3. The Credit Agreements referred to under "Share and Loan Capital of TimberWest — Operating Loan, Term Loan, Bridge Loan and Senior Subordinated Loan".
4. Agency Agreement. See "Plan of Distribution".
5. Agreements whereby the Trust will acquire all of the securities of TimberWest.
6. Administration Agreement. See "Declaration of Trust and Description of Trust Units — Trust Administration".

Copies of these documents or drafts thereof (other than the Credit Agreements) will be available for review during the period of distribution of the Trust Units at the offices of McCarthy Tétrault, 1300 - 777 Dunsmuir Street, Vancouver, British Columbia, V7Y 1K2 and at the offices of Goepel Shields & Partners Inc., 1100 - 701 West Georgia Street, Vancouver, British Columbia, V7Y 1C6 during normal business hours at any time during the period of distribution and for 30 days thereafter.

PURCHASERS' STATUTORY RIGHTS

Securities legislation in several of the provinces provides purchasers with the right to withdraw from an agreement to purchase securities within two business days after receipt or deemed receipt of a prospectus and any amendment. In several of the provinces securities legislation further provides a purchaser with remedies for rescission or, in some jurisdictions, damages where the prospectus and any amendment contains a misrepresentation or is not delivered to the purchaser, provided that such remedies for rescission or damages are exercised by the purchaser within the time limit prescribed by the securities legislation of his province The purchaser should refer to any applicable provisions of the securities legislation of his province for the particulars of these rights or consult with a legal advisor.

CONTRACTUAL RIGHT OF ACTION FOR RESCISSION

In the event that a holder of a Special Deposit Warrant, who acquires a Trust Unit upon the exercise of the Special Deposit Warrant as provided for in this prospectus, is or becomes entitled under applicable legislation to the remedy of rescission by reason of this prospectus or any amendment thereto containing a misrepresentation, the holder shall be entitled to rescission not only of the holder's exercise of its Special Deposit Warrant but also of the private placement transaction pursuant to which the Special Deposit Warrant was initially acquired, and shall be entitled in connection with such rescission to a full refund of all consideration paid to the Trust on the acquisition of the Special Deposit Warrant. In the event such holder is a permitted assignee of the interest of the original Special Deposit Warrant, that permitted assignee shall be entitled to exercise the rights of rescission and refund granted hereunder as if such permitted assignee was such original subscriber. The foregoing is in addition to any other right or remedy available to a holder of a Special Deposit Warrant under the securities legislation of the holder's province or otherwise at law.

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AUDITORS' REPORT

To the Trustees of
TimberWest Timber Trust

We have audited the consolidated balance sheet of the TimberWest Timber Trust as at March 31, 1997. This financial statement is the responsibility of the Trust's management. Our responsibility is to express an opinion on this financial statement based on our audit.

We conducted our audit in accordance with generally accepted auditing standards. Those standards require that we plan and perform an audit to obtain reasonable assurance whether the financial statement is free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statement. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation.

In our opinion, this consolidated balance sheet presents fairly, in all material respects, the financial position of the Trust as at March 31, 1997 in accordance with generally accepted accounting principles.

Vancouver, Canada
April 25, 1997

Chartered Accountants

TIMBERWEST TIMBER TRUST

CONSOLIDATED BALANCE SHEET

	As at March 31, 1997
ASSETS	
Cash	$16,000,100
Cash held in escrow (note 5)	65,322,000
	$81,322,100
LIABILITIES AND EQUITY	
Accrued liabilities	$ 48,200
Promissory note payable (note 3)	6,400,000
Redeemable preferred shares issued by subsidiary (note 4)	1,600,000
Equity (note 5)	73,273,900
Subsequent event (note 6)	
	$81,322,100

Approved on behalf of the Trustees:

(Signed) James M.I. Bruce

(Signed) R. Keith Purchase

(See accompanying notes to consolidated balance sheet.)

TIMBERWEST TIMBER TRUST

NOTES TO CONSOLIDATED BALANCE SHEET

As at March 31, 1997

1. **Formation of Trust:**

TimberWest Timber Trust (the "Trust") is an open-ended, limited purpose trust established under the laws of the Province of British Columbia by Declaration of Trust made as of February 17, 1997 under the name of The Timber Income Fund and adopted its current name on ● . The Trust has been created to acquire all of the shares and ● million aggregate principal amount of ● % unsecured subordinated Series A notes of TAL Acquisition Ltd. ("TAL") which has agreed to acquire all of the shares of TimberWest Forest Limited ("TimberWest") for $674.1 million (the "Acquisition"). The Acquisition is subject to the approval of shareholders of TimberWest and the Minister of Forests of British Columbia and if these approvals are obtained the Acquisition is expected to close prior to June 30, 1997. If closing does not occur prior to June 30, 1997, the agreement may be terminated.

To finance the Acquisition, the Trust has issued, by private placement 33,461,000 Special Deposit Warrants (the "Warrants") at a price of $10 per Warrant. 800,000 Warrants were paid in full and 32,661,000 Warrants were issued on an instalment basis with $2.00 per Warrant (the "First Instalment") paid on the date of issue and $8.00 per Warrant (the "Final Instalment") payable on the business day immediately prior to the Acquisition closing. The net proceeds from the issue of warrants will be $326.9 million after deducting the fees and expenses of the private placement which are estimated to be $7.7 million. To finance the remainder of the Acquisition price, TAL has arranged debt facilities with a Canadian chartered bank and a subsidiary thereof.

As part of the transactions to be completed in respect of the Acquisition, TAL and TimberWest will amalgamate after completion of the Acquisition.

2. **Basis of Consolidation:**

The consolidated financial statements include the accounts of TAL Acquisition Ltd. All material inter-entity balances and transactions have been eliminated.

3. **Promissory Note Payable:**

The promissory note is repayable in full on June 30, 1997 and bears interest at the rate of 11% per annum.

4. **Redeemable Preferred Shares Issued by Subsidiary:**

TAL has issued 1,600,000 preferred shares with a par value of $1.00 per share. The holder of the preferred shares has a one time right to require TAL to redeem the preferred shares at their par value on July 15, 1997. TAL has the right, exercisable at any time and from time to time, to redeem, in whole or in part the outstanding preferred shares at their par value.

5. **Equity:**

Trust units issued[(a)]	$ 100
Special Deposit Warrants issued[(b)]:	
Total subscription price on 33,461,000 Warrants	334,610,000
Less final instalment to be received on 32,661,000 Warrants	(261,288,000)
	73,322,000
Less costs of issuance accrued to March 31, 1997	(48,200)
Balance, March 31, 1997	73,273,800
Equity, March 31, 1997	$ 73,273,900

5. **Equity: (Continued)**

(a) Ten trust units were issued for proceeds of $100. Immediately after the completion of the issue of trust units pursuant to the private placement, the Trust will purchase the initial trust units from the unit holder.

(b) Of the total Warrants issued, 32,661,000 Warrants were issued and sold to investors at $10.00 per Warrant, payable as to a First Instalment of $2.00 per Warrant on March 27, 1997 and a Final Instalment of $8.00 per Warrant on the business day immediately prior to the day of the Acquisition closing.

Amounts received for the Special Deposit Warrants issued are as follows:

First Instalment on 32,661,000 Special Deposit Warrants	$ 65,322,000
Full payment on 800,000 Special Deposit Warrants	8,000,000
	$ 73,322,000

The First Instalment proceeds are held in escrow for the Trust pending escrow release conditions being met. These conditions are the confirmation of the completion of the Acquisition having being fulfilled or waived, other than payment of the purchase price, and receipt of an opinion of counsel to the Trustees to the effect that the Trust qualifies or will qualify as a "mutual fund trust" within the meaning of the Income Tax Act (Canada).

If by the later of May 30, 1997 or such later date up to June 30, 1997 as the Trust may specify, the escrow release conditions have not been met, the Trust shall be deemed to have made an offer to purchase each Warrant for the amount paid by the Warrant holder plus the pro rata portion of interest or other income earned by the Trust on the First Instalment proceeds.

Subject to the payment of the Final Instalment for the Warrants by the deadline as specified in the Special Deposit Warrant Indenture, each Warrant will be exchanged for a trust unit of the Trust.

The Trust is an unincorporated trust and each trust unit represents an equal undivided beneficial interest in the assets of the Trust. Each trust unit is transferable, entitles the holder thereof to participate equally in distributions by the Trust and to one vote for each trust unit held at all meetings of the unitholders. Trust units are not subject to future calls or assessments.

6. **Subsequent Event:**

Subsequent to March 31, 1997, a subsidiary of a Canadian chartered bank that is providing financing to TAL has agreed to subscribe for 76,950 Trust Units at a price of $10 per Trust Unit.

COMPILATION REPORT

To the Trustees
TimberWest Timber Trust

We have reviewed, as to compilation only, the accompanying pro forma consolidated balance sheet of TimberWest Timber Trust as at March 31, 1997 and the pro forma consolidated statements of operations and distributable cash for the nine months ended March 31, 1997 and for the year ended June 30, 1996. These pro forma consolidated financial statements have been prepared for inclusion in the prospectus of the Trust to qualify the distribution of trust units. In our opinion, these pro forma consolidated financial statements have been properly compiled to give effect to the proposed transactions and the assumptions described in the notes thereto.

Vancouver, Canada
● 1997 Chartered Accountants

TIMBERWEST TIMBER TRUST

UNAUDITED PRO FORMA CONSOLIDATED BALANCE SHEET
(in millions of dollars)

	As at March 31, 1997			
	Trust	**TimberWest Continuing Operations**	**Pro Forma Adjustments**	**Pro Forma Consolidated**
			(note 3)	
ASSETS				
Current Assets:				
Cash	$81.3	$ —	$ (77.5)	$ 3.8
Accounts receivable	—	22.2		22.2
Inventory	—	66.0		66.0
Prepaid expenses	—	2.6		2.6
	81.3	90.8		94.6
Investments and advances to Interior Operations	—	69.8	157.4 b(i)	—
			(227.2) b(ii)	
Fixed assets, net	—	329.1	288.2 b(v)	617.3
Other assets	—	8.0	11.5 b(vi)	19.5
	$81.3	$497.7		$731.4
LIABILITIES AND UNITHOLDERS' EQUITY				
Current Liabilities:				
Accounts payable and accrued liabilities	$—	$ 44.2	$ 11.0 b(ii)	$ 55.2
Operating loan	—	44.5	157.4 b(i)	—
			(201.9) b(vii)	
Bank operating loan	—	—	15.5 b(iv)	
			(15.5) b(vii)	—
Bank bridge loans	—	—	175.4 b(iv)	175.4
Preferred shares issued by subsidiary	1.6	—	(1.6) b(vii)	—
Promissory note payable	6.4	—	(6.4) b(vii)	—
	8.0	88.7		230.6
Long-term silviculture liability	—	4.7		4.7
Bank term loan	—	—	150.0 b(iv)	150.0
Deferred income taxes	—	18.4	(3.2) b(iii)	15.2
Equity:				
Unitholders' equity	73.3	—	0.8 b(vi)	330.9
			256.8 b(iii)	
Shareholders' equity	—	385.9	(385.9) b(v)	—
	73.3	385.9		330.9
	$81.3	$497.7		$731.4

(See accompanying notes to unaudited pro forma combined financial statements.)

TIMBERWEST TIMBER TRUST

UNAUDITED PRO FORMA CONSOLIDATED STATEMENT OF OPERATIONS AND DISTRIBUTABLE CASH
(in millions of dollars)

	Nine Months Ended March 31, 1997						
	Trust	Trust Pro Forma Adjustments		TimberWest Continuing Operations	TimberWest Pro Forma Adjustments (note 3)		Pro Forma Consolidated
Net sales	—			$247.6			$247.6
Operating costs and expenses:							
Cost of products sold	—			192.2			192.2
Depreciation, depletion and amortization	—			11.5			11.5
Selling, administrative and other	—			11.7			11.7
	—			215.4			215.4
Operating earnings	—			32.2			32.2
Financing costs	—	•	d(i)	(0.2)	•	d(ii)	•
					•	d(i)	
Other income	—	•	d(i)	5.9	•	d(i)	5.9
Earnings before income taxes	—	•		37.9	•		•
Income taxes	—	—		13.0	•	d(iii)	•
Net earnings	—	•		$ 24.9			$ •
Distributable cash:							
Net earnings of TimberWest							$ •
Add (deduct):							
Depreciation, depletion and amortization							11.5
Capital expenditures							(7.4)
Debt repayment							—
Dividends and capital distributions from TimberWest to the Trust							•
Principal repayment on unsecured notes							—
Net earnings of the Trust							•
Distributable cash							$ •
Distributable cash per trust unit							$ •

TIMBERWEST TIMBER TRUST

UNAUDITED PRO FORMA CONSOLIDATED STATEMENT OF OPERATIONS AND DISTRIBUTABLE CASH

(stated in millions of dollars)

	Year Ended June 30, 1996				
	Trust	**Trust Pro Forma Adjustments**	**TimberWest Continuing Operations**	**TimberWest Pro Forma Adjustments** (note 3)	**Pro Forma Consolidated**
Net sales	—		$303.4		$303.4
Operating costs and expenses:					
Cost of products sold	—		249.7		249.7
Depreciation, depletion and amortization	—		14.4		14.4
Selling, administrative and other	—		14.4		14.4
	—		278.5		278.5
Operating earnings	—		24.9		24.9
Financing costs	—	• c(i)	(0.8)	• c(ii)	•
				• c(i)	
Other income	—	• c(ii)	3.6	• c(i)	3.6
Earnings before income taxes	—	•	27.7	•	•
Income taxes	—	—	11.3	• c(iii)	•
Net earnings	—	•	$ 16.4	•	$ •
Distributable cash:					
Net earnings of TimberWest					$ •
Add (deduct):					
Depreciation, depletion and amortization					14.4
Capital expenditures					(31.6)
Debt repayment					—
Dividends and capital distributions from TimberWest to the Trust					•
Principal repayment on unsecured notes					—
Net earnings of the Trust					•
Distributable cash					•
Distributable cash per trust unit					$ •

TIMBERWEST TIMBER TRUST

NOTES TO UNAUDITED PRO FORMA CONSOLIDATED FINANCIAL STATEMENTS

1. **Basis of Presentation:**

TimberWest Timber Trust (the "Trust") has entered into an agreement to purchase, through its wholly-owned subsidiary, TAL Acquisition Ltd. ("TAL"), all of the outstanding common shares of TimberWest Forest Limited ("TimberWest") for an aggregate consideration of approximately $674.1 million. As part of this agreement, TimberWest agreed to sell its operations at Mackenzie, Williams Lake, and Ashcroft, British Columbia (collectively the "Interior Operations") to third parties for $210 million plus the repayment of their operating loans. At the date of acquisition, all of TimberWest's operations will be conducted on the coast of British Columbia where TimberWest owns in fee simple approximately 210,000 hectares of private timberlands and two lumbermill complexes and has rights to Crown timber tenures (the "Continuing Operations").

The accompanying pro forma consolidated financial statements have been prepared for inclusion in a prospectus to be filed by the Trust to qualify the distribution of 33,537,950 trust units.

The pro forma consolidated financial statements include:

(a) a pro forma consolidated balance sheet prepared from the audited consolidated balance sheet of the Trust as at March 31, 1997 and the unaudited balance sheet of the Continuing Operations of TimberWest as at March 31, 1997 and gives effect to the above sale of the Interior Operations, the Acquisition of the Continuing Operations of TimberWest and the assumptions as described in note 3(b). The pro forma consolidated balance sheet assumes that these transactions occurred on March 31, 1997.

(b) a pro forma consolidated statement of operations and distributable cash of the Trust for the year ended June 30, 1996 which adjusts the audited statement of Continuing Operations of TimberWest for the year ended June 30, 1996 for the assumptions as described in note 3(c).

(c) a pro forma consolidated statement of operations and distributable cash of the Trust for the nine months ended March 31, 1997 which adjusts the unaudited statement of Continuing Operations of TimberWest for the nine months ended March 31, 1997 for the assumptions as described in note 3(d).

The pro forma consolidated statements of operations for the year ended June 30, 1996 and for the nine months ended March 31, 1997 assume the Continuing Operations of TimberWest were acquired on, and that the debt and trust units to finance the acquisitions were issued on, July 1, 1995 and July 1, 1996, respectively.

The pro forma consolidated financial statements are not necessarily indicative of future operating results of the Trust nor the consolidated financial position of the Trust at the time of closing the purchase transaction referred to above.

The pro forma consolidated financial statements should be read in conjunction with the following statements all of which are contained elsewhere in this prospectus:

(i) the audited consolidated balance sheet of the Trust as at March 31, 1997;

(ii) the unaudited consolidated financial statements of TimberWest for the nine months ended March 31, 1997; and

(iii) the audited consolidated financial statements of TimberWest for the years ended June 30, 1996 and 1995 for the period from December 16, 1993 to June 30, 1994.

2. **Significant Accounting Policies:**

The pro forma consolidated financial statements have been compiled using the significant accounting policies as set out in the audited consolidated financial statements of TimberWest for the year ended June 30, 1996.

3. **Pro Forma Assumptions:**

(a) ***Acquisition:***

The acquisition of the TimberWest Continuing Operations has been accounted for in the accompanying pro forma consolidated financial statements using the purchase method as set out below. The amounts assigned to the assets and liabilities are based on the account balances at March 31, 1997. Account balances at the time of closing will vary and, accordingly, adjustments to the purchase price allocation will be required at that time.

	March 31, 1997 (in millions of dollars)
Net assets acquired, at fair value:	
Current assets	$ 90.8
Investment in and advances to Interior Operations	69.8
Fixed assets	617.3
Other assets	8.0
	785.9
Current liabilities	(88.7)
Long-term silviculture liability	(4.7)
Deferred income taxes	(18.4)
	$674.1
The acquisition is being financed as follows:	
Cash	$333.2
Bank operating loan	15.5
Bank term loan	150.0
Bank bridge loans	175.4
	$674.1

TAL obtained a commitment from a Canadian chartered bank for an operating loan of up to $30 million, a term loan of $150 million and a bridge loan of $160 million and from a subsidiary of the bank a senior subordinated bridge loan of $15.4 million (collectively, the "Loans"). The Loans are only to be made upon the acquisition by TAL of all of the issued shares of TimberWest.

Following the Acquisition closing, TAL and TimberWest will amalgamate and the Loans, and all covenants in respect of the Loans, will be the liabilities and obligations of TimberWest, and the Loans will be secured by assets and properties of TimberWest.

The interest rates payable in respect of the Loans will vary from time to time and are based upon the interest rates paid on bankers' acceptances, the bank's prime rate, the London Interbank Offered Rate and U.S. dollar base rate as selected by TimberWest from time to time.

3. **Pro Forma Assumptions: (Continued)**

The initial term of the Loans, subject to extension under certain conditions, is as follows:

Operating loan	—	renewable on an annual basis
Bridge loans	—	nine months
Term loan	—	three years

(b) ***Assumptions for Pro Forma Consolidated Balance Sheet:***

(i) Additional Investment in Interior Operations:

TimberWest will borrow a net $157.4 million from Fletcher Challenge Canada Limited (FCCL) and will invest the proceeds of these loans directly or indirectly in the Interior Operations.

(ii) Sale of Interior Operations:

TimberWest will sell the Interior Operations for $210 million plus the Operating loan ($28.2 million) and provide for disposal and other transaction costs of $11.0 million.

(iii) Financing:

The Trust will receive the final instalment ($261.3 million) on 32,661,000 special deposit warrants, will issue 33,461,000 fully paid trust units to the holders of special deposit warrants, and will invest these funds in shares and unsecured subordinated Series A notes of TAL and TAL will pay agent's commissions and expenses of $7.7 million and will record deferred income tax recoveries of $3.2 million.

(iv) Borrowings:

To finance the remainder of the acquisition cost, TAL will borrow from a Canadian chartered bank aggregate debt of $340.9 million, being an operating loan of $15.5 million, a term loan of $150.0 million, a bridge loan of $160.0 million and a senior subordinated bridge loan of $15.4 million.

(v) Investment:

The purchase price of $674.1 million exceeded the net book value of the assets and liabilities of TimberWest by $288.2 million and this excess has been allocated to private timberlands for the purpose of this statement.

(vi) Transaction Costs:

The Trust and TAL will incur approximately $11.5 million in advisory and financing fees, of which $ ● million will be deferred and amortized over the term of the debt and $ ● million will be included as part of the purchase price of the acquisition. A subsidiary of the bank will invest $0.8 million of its fees in trust units.

(vii) Maturity and Redemption of Securities:

The preferred shares issued by TAL will be redeemed for $1.6 million, and promissory note payable of $6.4 million, loans from FCCL in the amount of $201.9 million and the bank operating loan in the amount of $15.5 million will be repaid.

3. **Pro Forma Assumptions: (Continued)**

(c) ***Assumptions for Pro Forma Consolidated Statement of Earnings and Distributable Cash for the Year Ended June 30, 1996:***

(i) An adjustment for interest expense and income on $ ● million of ● % unsecured subordinated Series A notes of TAL held by the Trust totalling $ ● and an administration fee of ● charged by TimberWest to the Trust.

(ii) An adjustment to financing costs of ● based upon the debt financing required to finance the acquisition at blended annual interest rate of ● % plus amortization of financing fees of $ ● .

	(millions)
Bank bridge loans	$ ●
Bank term loan	●
Total interest	$ ●

(iii) An adjustment of income taxes of $ ● to reflect the additional net expense from (i) and (ii) above and the deduction to be taken for tax purposes of the distribution of net income to unitholders and an increase in Large Corporation Tax as a result of the acquisition price of the net assets of TimberWest.

(iv) The dividend policy of TimberWest is to declare dividends on a quarterly basis in an amount equal to its net earnings before depreciation and deferred income taxes, less capital expenditures and debt repayment.

(v) Distributable cash includes all amounts received by the Trust in respect of dividends or return of capital on the TimberWest shares and interest or repayment of principal on the unsecured notes, as the case may be, plus the income, if any, from other permitted investments of the Trust, less amounts that may be paid by the Trust in connection with any cash redemption of Trust Units and expenditures incurred by the Trust.

(d) ***Assumptions for Pro Forma Consolidated Statement of Earnings for the Nine Months Ended March 31, 1997:***

(i) An adjustment for interest expense and income on $ ● million of ● % unsecured subordinated Series A notes of TAL held by the Trust totalling $ ● and an administration fee of ● charged by TimberWest to the Trust.

(ii) An adjustment to financing costs of ● based upon the debt financing reported to finance the acquisition at blended annual interest rate of ● % plus amortization of financing fees of $ ● million.

	(millions)
Bank bridge loans	$ ●
Bank term loan	●
Total interest	$ ●

(iii) An adjustment of income taxes of $ ● to reflect the additional net expense from (i) and (ii) above and the deduction to be taken for tax purposes of the distribution of net income to

3. **Pro Forma Assumptions: (Continued)**

unitholders and an increase in Large Corporation Tax as a result of the acquisition price of the net assets of TimberWest.

(iv) The dividend policy of TimberWest is to declare dividends on a quarterly basis in an amount equal to its net earnings before depreciation and deferred income taxes, less capital expenditures and debt repayments.

(v) Distributable cash includes all amounts received by the Trust in respect of dividends or return of capital on the TimberWest shares and interest or repayment of principal on the unsecured notes, as the case may be, plus the income, if any, from other permitted investments of the Trust, less amounts that may be paid by the Trust in connection with any cash redemption of Trust Units and expenditures incurred by the Trust.

AUDITORS' REPORT

To the Board of Directors
TimberWest Forest Limited

We have audited the consolidated balance sheets of TimberWest Forest Limited as at June 30, 1996 and 1995, the consolidated statements of earnings, retained earnings and changes in financial position for the years ended June 30, 1996 and 1995 and for the period from December 16, 1993 to June 30, 1994. These financial statements are the responsibility of the Company's management. Our responsibility is to express an opinion on these financial statements based on our audits.

We conducted our audits in accordance with generally accepted auditing standards. Those standards require that we plan and perform an audit to obtain reasonable assurance whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation.

In our opinion, these consolidated financial statements present fairly, in all material respects, the financial position of the Company as at June 30, 1996 and 1995, the results of its operations and the changes in its financial position for the years ended June 30, 1996 and 1995 and for the period from December 16, 1993 to June 30, 1994 in accordance with generally accepted accounting principles.

Vancouver, Canada
July 11, 1996, except as to Note 17 — Chartered Accountants
which is as of ● , 1997

TIMBERWEST FOREST LIMITED

CONSOLIDATED BALANCE SHEETS

(in millions of dollars)

	As at March 31, 1997	As at June 30 1996	As at June 30 1995
	(unaudited)	(restated) (note 3)	(restated) (note 3)
ASSETS			
Current Assets			
Accounts receivable	$ 52.5	$ 54.3	$ 43.2
Inventories (note 4)	158.8	116.4	69.5
Prepaid expenses	3.6	5.5	3.7
	214.9	176.2	116.4
Fixed Assets (note 5)			
Property, plant and equipment	171.2	166.2	88.7
Timberlands and logging roads	355.1	352.2	243.0
	526.3	518.4	331.7
Other Assets (note 6)	9.5	20.2	25.3
	$750.7	$714.8	$473.4
LIABILITIES AND SHAREHOLDERS' EQUITY			
Current Liabilities			
Operating loan (note 7)	$ 44.5	$ 53.0	$ —
Accounts payable and accrued liabilities	109.4	84.4	79.3
Income taxes payable	4.7	0.6	—
	158.6	138.0	79.3
Long-term Silviculture Liability	24.7	20.8	11.7
Deferred Income Taxes	24.0	28.8	20.0
Redeemable Preferred Shares (note 8)	157.5	158.6	—
	364.8	346.2	111.0
Shareholders' Equity			
Common share capital (note 9)	256.3	256.3	257.5
Retained earnings	129.6	112.3	104.9
	385.9	368.6	362.4
	$750.7	$714.8	$473.4

Contingency (note 1(b))
Subsequent events (note 17)

Approved by the Directors:

(Signed) S. Luke Moriarty, Director

(Signed) R. Keith Purchase, Director

TIMBERWEST FOREST LIMITED

CONSOLIDATED STATEMENTS OF EARNINGS

(in millions of dollars except per share amounts)

	Nine Months Ended March 31		Year Ended June 30		For the Period December 16, 1993 to June 30, 1994
	1997	1996	1996	1995	
	(unaudited)	(restated) (unaudited)	(restated)	(restated)	(restated)
Net Sales	$ 247.6	$ 220.2	$ 303.4	$ 396.7	$ 180.9
Operation Costs and Expenses					
Cost of products sold	192.2	187.3	249.7	278.5	120.3
Depreciation, depletion and amortization	11.5	10.4	14.4	12.4	6.9
Selling, administrative and other	11.7	10.9	14.4	15.3	7.6
	215.4	208.6	278.5	306.2	134.8
Operating Earnings	32.2	11.6	24.9	90.5	46.1
Financing Costs (notes 8, 10 and 12)	(0.2)	(0.6)	(0.8)	(2.8)	(2.7)
Other Income	5.9	3.4	3.6	17.9	0.8
Earnings Before Income Taxes & Discontinued Operations	37.9	14.4	27.7	105.6	44.2
Income Taxes (note 11)	13.0	5.5	11.3	41.4	18.8
Earnings from Continuing Operations	24.9	8.9	16.4	64.2	25.4
Earnings from Discontinued Operations	(0.2)	5.6	1.6	7.5	9.1
Net Earnings	$ 24.7	$ 14.5	$ 18.0	$ 71.7	$ 34.5
Net Earnings from Continuing Operations per Weighted Average Common Share (in dollars) (note 2)	$ 0.81	$ 0.29	$ 0.53	$ 2.07	$ 0.82
Net Earnings per Weighted Average Common Share (in dollars) (note 2)	$ 0.81	$ 0.47	$ 0.59	$ 2.31	$ 1.11
Weighted Average Common Shares Outstanding ('000)	30,641	30,683	30,672	30,982	31,020

CONSOLIDATED STATEMENTS OF RETAINED EARNINGS

(in millions of dollars)

	Nine Months Ended March 31		Year Ended June 30		For the Period December 16, 1993 to June 30, 1994
	1997	1996	1996	1995	
	(unaudited)	(restated) (unaudited)	(restated)	(restated)	(restated)
Balance at Beginning of Period	$ 112.3	$ 104.9	$ 104.9	$ 34.5	$ —
Net Earnings	24.7	14.5	18.0	71.7	34.5
Repurchase of Common Shares (note 9)	—	(0.8)	(0.8)	(1.3)	—
Common Share Dividends Declared	(7.4)	(7.4)	(9.8)	—	—
Balance at End of Period	$ 129.6	$ 111.2	$ 112.3	$ 104.9	$ 34.5

TIMBERWEST FOREST LIMITED

CONSOLIDATED STATEMENTS OF CHANGES IN FINANCIAL POSITION

(in millions of dollars)

	Nine Months Ended March 31		Year Ended June 30		For the Period December 16, 1993 to June 30,
	1997	1996	1996	1995	1994
	(unaudited)	(restated) (unaudited)	(restated)	(restated)	(restated)
Cash Provided by (used for)					
Continuing Operations					
Net earnings	$ 24.9	$ 8.9	$ 16.4	$ 64.2	$ 25.4
Items not requiring (providing) cash					
Depreciation, depletion and amortization	11.5	10.4	14.4	12.4	6.9
Non-cash taxes	(1.2)	4.5	8.4	32.9	16.7
Gain on sale of fixed assets	(0.4)	(2.5)	(3.6)	(2.0)	(0.5)
Other	0.3	0.4	(1.0)	1.8	0.4
	35.1	21.7	34.6	109.3	48.9
Increase (decrease) in non-cash working capital	(4.3)	(17.7)	(16.8)	(3.6)	15.1
	30.8	4.0	17.8	105.7	64.0
Discontinued Operations					
Net earnings (loss)	$ (0.2)	$ 5.6	$ 1.6	$ 7.5	$ 9.1
Items not requiring (providing) cash					
Depreciation, depletion and amortization	11.1	4.3	6.3	2.2	1.0
Non-cash taxes	5.4	2.5	3.4	3.9	6.0
Gain on sale of fixed assets	—	—	(0.2)	—	—
Other	3.6	2.4	1.2	1.7	0.4
	19.9	14.8	12.3	15.3	16.5
Increase (decrease) in non-cash working capital	(5.3)	(1.4)	(17.3)	(9.1)	1.9
	14.6	13.4	(5.0)	6.2	18.4
Total cash generated from operations	45.4	17.4	12.8	111.9	82.4
Financing					
Long-term debt issued (note 7)	—	—	—	66.0	—
Long-term debt repaid (note 7)	—	—	—	(66.0)	—
Issue (purchase) of common shares (note 9)	—	(2.0)	(2.0)	(3.3)	254.7
Issue (redemption) of preferred shares	(1.4)	158.5	158.5	(115.0)	115.0
Common share dividends	(7.4)	(7.4)	(9.8)	—	—
	(8.8)	149.1	146.7	(118.3)	369.7
Investing					
Acquisition of operations	—	(182.7)	(178.5)	—	(364.6)
Additions to fixed assets	(31.0)	(32.5)	(40.6)	(35.5)	(10.9)
Decrease (increase) in other assets	2.0	(0.4)	2.2	(4.1)	(37.8)
Proceeds on sale of fixed assets	0.9	2.7	4.4	6.6	0.6
	(28.1)	(212.9)	(212.5)	(33.0)	(412.7)
Increase (Decrease) in Cash	8.5	(46.4)	(53.0)	(39.4)	39.4
Cash (Indebtedness) at Beginning of Period	(53.0)	—	—	39.4	—
Cash (Indebtedness) at End of Period	$ (44.5)	$ (46.4)	$ (53.0)	$ —	$ 39.4

(Cash includes cash, short-term investments and operating loans.)

TIMBERWEST FOREST LIMITED

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

FOR THE NINE MONTHS ENDING MARCH 31, 1997 AND 1996 (UNAUDITED)
FOR THE YEARS ENDED JUNE 30, 1996 AND 1995
FOR THE PERIOD FROM DECEMBER 16, 1993 TO JUNE 30, 1994

1. **Formation of Company and Business Acquisitions:**

(a) ***Initial Business Acquisition:***

TimberWest Forest Limited (the "Company" or "TimberWest") was incorporated under the *Company Act* (British Columbia) on January 8, 1987 and changed its name to TimberWest Forest Limited on October 14, 1993. The Company commenced operations as TimberWest on December 16, 1993 after acquiring certain of the forest products assets and businesses of Fletcher Challenge Canada Limited ("FCCL") and its subsidiary, Elk Falls Forest Industries Limited ("EFFIL"). The assets purchased include 210,000 hectares of private timberlands, certain Crown timber tenures and associated logging and lumbermill operations.

The acquisition has been accounted for using the continuity of interests method as FCCL is the majority shareholder through its direct and indirect shareholdings. Accordingly, the net assets acquired are recorded at their historical cost.

Details of the acquisition are as follows:

	(in millions of dollars)
Net Assets Acquired:	
Net working capital	$ 41.4
Property, plant and equipment	312.4
Other assets	18.1
	371.9
Less silviculture liability, net of current portion	(7.3)
	$364.6
Consideration Paid:	
Cash	$185.2
Issue of common shares	69.4
Issue of Class C preferred shares	55.0
Issue of Class D preferred shares	55.0
	$364.6

Actual proceeds from the sale of common shares exceeded the acquisition requirements by $140,000 which was used to supplement initial working capital requirements.

(b) ***Mackenzie Acquisition:***

Acquisition Summary

On January 19, 1996 the Company acquired, through its subsidiary TimberNorth Forest Limited, the Mackenzie wood products operations of FCCL. The operations acquired include two sawmills with a combined annual lumber capacity of 350 million board feet and associated timber cutting rights of approximately 1.5 million cubic metres per annum. The transaction has been accounted for by the

1. **Formation of Company and Business Acquisitions: (Continued)**

purchase method with the results of operations included in these financial statements from the date of acquisition. Details of the net assets acquired and consideration paid are:

	(in millions of dollars)
Net Assets Acquired	
Net working capital	$ 20.0
Fixed assets	167.4
	187.4
Silviculture liability, net of current portion	(8.9)
	$178.5
Consideration Paid	
Operating loan	$ 20.0
Preferred shares (note 8(b))	158.5
	$178.5

As part of the purchase price of the Mackenzie wood products operations the Company obtained certain assets whose elected amount for tax purposes approximated $60.0 million. Accordingly, the carrying value of assets purchased exceeds the elected value for income tax purposes by approximately $100.2 million (March 31, 1997 — $94.5 million).

Purchase Price Adjustments

The purchase price of the Mackenzie wood products operations is subject to adjustment annually, based on average lumber and wood chip prices for the 1996, 1997 and 1998 calendar years. For lumber prices a purchase price adjustment occurs in respect of a calendar year if the average U.S. dollar price for the year of 1,000 board feet of SPF 2×4 Standard and Better, as published in Random Lengths, falls outside a range of U.S. $272 to U.S. $317, inclusive (subject to adjustment under certain prescribed events). For chip prices a purchase price adjustment occurs in respect of a calendar year if the average price of chips for the year, expressed in Canadian dollars per Bone Dry Unit, payable by FCCL to TimberNorth Forest Limited for residual and pulpwood chips falls outside a range of $194 to $227, inclusive.

The purchase price is reduced or increased if the average lumber or wood chip price falls below or above the established price thresholds, respectively. A purchase price adjustment resulting when the average price of either lumber or wood chips exceeds the established threshold will be payable by TimberWest to FCCL. A purchase price adjustment resulting when the average price of either lumber or wood chips falls below the established threshold will be payable by FCCL to TimberWest.

The purchase price adjustments for lumber are determined by multiplying the difference between the calendar average price and the threshold by U.S. $200,000, U.S. $160,000 and U.S. $120,000 for 1996, 1997 and 1998, respectively. The purchase price adjustments for wood chips are determined by multiplying the difference between the calendar average price and the threshold by $150,000, $120,000 and $100,000 for 1996, 1997 and 1998, respectively.

1. **Formation of Company and Business Acquisitions: (Continued)**

If there is an adjustment to the purchase price, any adjustment shall be made by way of either an adjustment to the redemption value of any outstanding preferred shares held by FCCL at that time or by a cash payment, at FCCL's option, if any such preferred shares are outstanding at the adjustment date, or by way of a cash payment if no such shares are outstanding at the adjustment date.

Adjustments to the purchase price will be recorded by the Company as an increase or decrease at the date when the adjustments are determinable (note 8(e)).

2. **Significant Accounting Policies:**

(a) ***Basis of Consolidation:***

The consolidated financial statements include the accounts of the Company and its subsidiaries. The Company's active subsidiaries are TimberNorth Forest Limited (100% owned) and TimberWest Forest Japan Kabushiki Kaisha (100% owned). All significant intercompany transactions and balances have been eliminated.

(b) ***Inventories:***

Inventories, other than supplies which are valued at cost, are valued at the lower of average cost and net realizable value.

(c) ***Fixed Assets:***

Fixed assets are stated at cost; plant and equipment are depreciated on a straight-line basis at rates which reflect estimates of the economic lives of the assets based on the following annual rates of depreciation:

Assets	Rate
Buildings	2.5% - 5%
Machinery and equipment	5% - 25%
Other	3% - 20%

Coastal crown timberlands are depleted in a systematic manner based on the utilization of the timber resources. Interior crown timberlands are depleted on a straight-line basis over 40 years. Logging roads are amortized on a straight-line basis over 12 years which approximates the utilization of the related timber resources.

Private timberlands are accounted for using the sustained yield method. No depletion is taken on the capital cost of the timberlands unless harvest levels exceed growth on a sustained basis. Yield analyses are conducted periodically to determine if this occurs.

2. **Significant Accounting Policies: (Continued)**

(d) ***Silviculture Costs:***

The *Forest Act* (British Columbia) requires the holders of timber harvesting licences to assume the cost of reforestation on these licences. Accordingly, the Company records the estimated cost of reforestation on these licences as the timber is harvested. The portion of this liability representing expenditures projected to take place within the next year is classified as a current liability and the remainder is classified as a long-term liability.

(e) ***Foreign Currency Transactions:***

Monetary assets and liabilities of the Company denominated in foreign currencies are translated at the period-end exchange rates. Gains or losses on translation of current assets and current liabilities are reflected in net earnings for the period. For preferred shares denominated in U.S. funds, the Company has designated certain revenue streams as a hedge. Accordingly, exchange gains or losses are deferred and recorded when these shares are redeemed. Revenues and expense items denominated in foreign currencies are translated at rates of exchange prevailing during the period.

(f) ***Post-Retirement Benefits:***

The Company provides certain health care and limited life insurance benefits to eligible retired employees. The costs of providing these benefits are expensed by the Company as paid.

(g) ***Earnings per Common Share:***

Earnings per common share are calculated on net earnings and are based on the weighted average number of common shares outstanding during the period.

3. **Change in Accounting Policy — Depletion of Private Timberlands:**

During the period ended March 31, 1997, the Company adopted the sustained yield method of accounting for private timberlands. Under this method, the Company capitalizes all costs associated with the acquisition of private timberlands and expenses all subsequent costs associated with forest management. No depletion is taken on the capital costs of the timberlands unless harvest levels exceed growth on a sustained basis.

This change was applied on a retroactive basis, accordingly amounts previously reported for depreciation, depletion and amortization have decreased by $3.5 million, $2.9 million and $1.8 million for the periods ended June 30, 1996, 1995 and 1994 respectively and by $2.3 million for the nine months ended March 31, 1996. Income taxes have increased by $1.0 million, $0.9 million and $0.5 million for the periods ended June 30, 1996, 1995 and 1994 respectively and by $0.7 million for the nine months ended March 31, 1996. Retained earnings has increased by $5.8 million as at June 30, 1996.

4. **Inventories:**

	As at March 31, 1997	As at June 30 1996	As at June 30 1995
	(in millions of dollars)		
Logs	$116.0	$ 79.3	$51.4
Lumber and other wood products	33.3	32.0	14.5
Supplies	9.5	5.1	3.6
	$158.8	$116.4	$69.5

5. **Fixed Assets:**

	As at March 31, 1997 Cost	Accumulated Depreciation	Net Book Value
	(in millions of dollars)		
Property, plant and equipment:			
Lumbermill and other wood products plants	$187.4	$ 75.5	$111.9
Logging buildings and equipment	108.8	71.0	37.8
Other equipment and facilities	16.0	9.5	6.5
Land	15.0	—	15.0
	$327.2	$156.0	$171.2
Timberlands and logging roads (net of depletion and amortization)			$355.1

	As at June 30, 1996 (restated) Cost	Accumulated Depreciation	Net Book Value
	(in millions of dollars)		
Property, plant and equipment:			
Lumbermill and other wood products plants	$169.4	$ 67.7	$101.7
Logging buildings and equipment	111.7	68.2	43.5
Other equipment and facilities	15.6	9.2	6.4
Land	14.6	—	14.6
	$311.3	$145.1	$166.2
Timberlands and logging roads (net of depletion and amortization)			$352.2

5. **Fixed Assets: (Continued)**

	As at June 30, 1995 (restated)		
	Cost	Accumulated Depreciation	Net Book Value
	(in millions of dollars)		
Property, plant and equipment:			
Lumbermill and other wood products plants	$109.3	$ 63.9	$ 45.4
Logging buildings and equipment	88.8	63.8	25.0
Other equipment and facilities	15.1	9.0	6.1
Land	12.2	—	12.2
	$225.4	$136.7	$ 88.7
Timberlands and logging roads (net of depletion and amortization)			$243.0

6. **Other Assets:**

	As at March 31, 1997	As at June 30 1996	As at June 30 1995
	(in millions of dollars)		
Future tax benefits (note 12)	$ —	$ 9.1	$16.1
Non-interest-bearing promissory note due April 3, 1998	3.6	3.6	3.4
Other	5.9	7.5	5.8
	$9.5	$20.2	$25.3

The non-interest-bearing promissory note has a face value of $4.0 million and has been discounted to its present value.

7. **Loan Facilities:**

(a) ***Revolving Credit Agreements:***

The Company has two unsecured revolving credit agreements with FCCL:

(i) the "Operating Loan Agreement" for up to $75 million. The Operating Loan Agreement expires, and all amounts outstanding are due and payable, on January 19, 2001. Loans made under the Operating Loan Agreement bear interest at short-term rates, at a competitive margin over rates based on Canadian dollar bankers' acceptance yields. Loans made under the facility will become due at the option of FCCL 60 days after notice to the Company if FCCL ceases to hold at least 50% of the outstanding common shares of the Company.

(ii) the "Term Loan Facility" for up to $125 million (of which up to U.S. $90 million may be made available at par to the Canadian dollar). The facility does not have an expiry date but may be terminated by FCCL giving to the Company not less than five years notice of termination. Loans made under the facility: may be prepaid without penalty; bear interest at floating rates, at a competitive margin over rates based on Canadian dollar bankers' acceptance yields or U.S. dollar

7. **Loan Facilities: (Continued)**

LIBOR rates; and become due at the option of FCCL 60 days after notice to the Company if FCCL ceases to hold at least 50% of the common shares of the Company.

The Company also has a $25 million unsecured operating line of credit with a Canadian chartered bank.

At March 31, 1997, $44.5 million (June 30, 1996 — $53.0 million, June 30, 1995 — nil) was outstanding under the Operating Loan Agreement. The Company utilized and repaid $66 million of the Term Loan Facility during 1995.

On January 19, 1996, the Company entered into an interest rate swap with FCCL to mitigate the risk of borrowing on a floating rate basis. The swap has a term of 10 years and is in the amount of U.S. $90 million for five years, reducing by $15 million at the end of the fifth year and at the end of each of the succeeding five years. The fixed interest rate for the swap is 5.4335%.

(b) ***Fair Value of Financial Instruments:***

The carrying value and fair value of the Company's interest rate swap is as follows:

	March 31, 1997		June 30, 1996	
	Carrying Value	Fair Value	Carrying Value	Fair Value
	(in millions of dollars)			
Interest rate swap	$ —	$7.6	$ —	$6.8

The fair value of the interest rate swap has been estimated by using March 31, 1997 and June 30, 1996 closing market rates. These fair values represent an estimate of the amount that the Company would receive if the instruments were closed out at these dates.

The carrying value of accounts receivable, accounts payable and accrued liabilities and the operating loan approximate their fair value because of the short maturity of those instruments.

The carrying value of the non-interest-bearing promissory note receivable approximates its fair value as it is recorded at a discounted amount based on rates that approximate market rates.

The carrying value of the redeemable preferred shares approximates fair value as the cumulative dividend rates approximate current market after tax interest rates.

8. **Redeemable Preferred Shares:**

Redeemable preferred shares issued by the Company, meet the definition of a financial liability and have been classified as such. Accordingly, dividends relating to the redeemable preferred shares of the continuing operations have been reported in the income statement of the continuing operations as financing costs. The statements of earnings, retained earnings and statement of changes in financial position for the year ended June 30, 1995 and the period ended June 30, 1994 have been restated to include preferred share dividends of $1.0 million and $2.7 million respectively as financing costs. Redeemable preferred shares issued by a subsidiary, TimberNorth Forest Limited, also meet this definition and the dividends on these shares are included as part of earnings from discontinued operations.

8. **Redeemable Preferred Shares: (Continued)**

(a) ***Authorized:***

	Number of Shares
TimberWest Forest Limited:	
Class A preferred shares without par value	100,000,000
Class B preferred shares: $1,000 par value	5,000
Class C preferred shares: $1,000 par value	100,000
Class D preferred shares: $1,000 par value	100,000
TimberNorth Forest Limited:	
Class A preferred shares: $820 par value	200,000
Class B preferred shares: U.S. $820 par value	200,000

(b) ***Issued and Outstanding:***

TimberWest Forest Limited:

	Shares	Millions of Dollars
Issued for cash		
Class B preferred shares	5,000	$ 5.0
Issued for business acquisition (note 1(a))		
Class C preferred shares	55,000	55.0
Class D preferred shares	55,000	55.0
Balance at June 30, 1994	115,000	115.0
Redemption of preferred shares		
Class B preferred shares	(5,000)	(5.0)
Class C preferred shares	(55,000)	(55.0)
Class D preferred shares	(55,000)	(55.0)
Balance at March 31, 1997, June 30, 1996 and 1995	—	$—

The Company redeemed the Class B preferred shares, on July 29, 1994, and the Class C and Class D preferred shares on September 1, 1994.

8. **Redeemable Preferred Shares: (Continued)**

TimberNorth Forest Limited:

	Shares	Millions of Dollars
Balance at June 30, 1995	—	$ —
Shares issued on Mackenzie acquisition (note 1(b))		
Class A preferred shares, issued at $1,000 each	35,776	35.8
Class B preferred shares, issued at U.S. $1,000 each	90,000	122.7
	125,776	158.5
Exchange difference from date of issuance	—	0.1
Balance at June 30, 1996	125,776	158.6
Exchange difference during the period	—	0.3
Redemption during the period (note 8(e))	—	(1.4)
Balance at March 31, 1997	125,776	$157.5

(c) ***Rights of Preferred Shares:***

TimberWest Forest Limited

(i) Class A preferred shares

The Class A preferred shares are non-voting and rank senior to the common shares, the Class B preferred shares, the Class C preferred shares and the Class D preferred shares as to the payment of dividends and the distribution of assets in the event of the liquidation, dissolution or winding-up of the Company.

(ii) Class B preferred shares

The Class B preferred shares are non-voting and rank senior to the common shares, the Class C preferred shares and the Class D preferred shares as to the payment of dividends and the distribution of assets in the event of liquidation, dissolution or winding-up of the Company.

Each Class B preferred share entitles its holder to a monthly cumulative preferential cash dividend at a floating rate equal to 90% of the prevailing yield on 30-day Canadian dollar bankers' acceptances.

The Class B shares are redeemable at the option of the Company and retractable at the option of the holder, at any time, at $1,000 per share plus all accrued and unpaid dividends.

(iii) Class C and Class D preferred shares

The Class C and Class D preferred shares are non-voting and rank equally with each other and rank senior to the common shares as to the payment of dividends and the distribution of assets in the event of the liquidation, dissolution or winding-up of the Company.

Each Class C and Class D preferred share entitles its holder to a monthly cumulative preferential cash dividend at a floating rate equal to 90% of the prevailing yield on 30-day Canadian dollar bankers' acceptances.

8. **Redeemable Preferred Shares: (Continued)**

The Class C and Class D shares are redeemable at the option of the Company at any time, at $1,000 per share plus all accrued and unpaid dividends.

The Class C and Class D shares are retractable at the option of the holder one year from the date of original issue at $1,000 per share plus all accrued and unpaid dividends.

TimberNorth Forest Limited

(i) Class A preferred shares

The Class A preferred shares are non-voting. Each Class A preferred share entitles its holder to a monthly cumulative preferential cash dividend on the redemption amount of such share equal to 75% of the prevailing 30-day Canadian bankers' acceptance rates, payable monthly. The Class A redemption amount is equal to $1,000 per share adjusted by Canadian dollar adjustments described in note 1(b).

The Class A preferred shares are redeemable at the option of TimberNorth Forest Limited and retractable at the option of the holder at any time after January 19, 1998 at the Class A redemption amount.

(ii) Class B preferred shares

The Class B preferred shares are non-voting. Each Class B preferred share entitles its holder to a monthly cumulative preferential cash dividend on the redemption amount of such share equal to 75% of the prevailing rate on one month LIBOR deposits in U.S. dollars, payable monthly. The Class B redemption amount is equal to U.S. $1,000 per share adjusted by U.S. dollar adjustments described in note 1(b).

The Class B preferred shares are redeemable at the option of TimberNorth Forest Limited and retractable at the option of the holder at any time after January 19, 1998 at the Class B redemption amount.

(d) ***Dividends Paid:***

TimberWest Forest Limited

During the periods ended March 31, 1997 and 1996 and June 30, 1996, no dividends were paid as no preferred shares were outstanding. During the year ended June 30, 1995, $1.0 million of dividends were paid to the holders of Class C and Class D preferred shares. During the period ended June 30, 1994, $2.7 million of dividends were paid to the holders of Class B, Class C and Class D preferred shares.

TimberNorth Forest Limited

During the period ended March 31, 1997, $0.8 million (June 30, 1996 — $0.6 million and June 30, 1995 and 1994 — nil) of dividends were paid to the holder of Class A preferred shares and $3.8 million (June 30, 1996 — $2.3 million and June 30, 1995 and 1994 — nil) of dividends were paid to the holder of the Class B preferred shares. Dividends on the preferred shares of TimberNorth Forest Limited are included as part of earnings from discontinued operations (see note 15).

8. **Redeemable Preferred Shares: (Continued)**

(e) ***Redemptions:***

The purchase price of the Mackenzie wood products operations, as disclosed in note 1(b), is subject to adjustments based on average lumber and wood chips for the 1996, 1997 and 1998 calendar years. On January 31, 1997, the application of this price adjustment formula to average lumber and wood chip prices received in the 1996 calendar year resulted in a reduction of the purchase price of $1.4 million. This reduction has been reflected in these financial statements as a redemption of preferred shares. Under the agreement with Slocan Forest Products Ltd. ("Slocan"), FCCL will assign its rights and obligations under the agreement containing the adjustments of the purchase price with respect to the 1997 and 1998 calendar years to Slocan.

9. **Common Share Capital:**

(a) ***Authorized:***

	Number of Shares
Common shares without par value	100,000,000

(b) ***Issued and Outstanding:***

	Shares	Millions of Dollars
Issued in prior period	1	$ —
Issued for cash after deducting share issue costs of $12.3 million net of deferred income taxes of $4.8 million	15,200,000	190.1
Issued for business acquisition (note 1(a))	15,820,407	69.4
Balance at December 16, 1993 and June 30, 1994	31,020,408	259.5
Repurchase of common shares pursuant to a normal course issuer bid of December 16, 1994	(242,200)	(2.0)
Balance at June 30, 1995	30,778,208	257.5
Repurchase of common shares pursuant to a normal course issuer bid of December 16, 1994	(137,500)	(1.2)
Balance at March 31, 1997 and June 30, 1996	30,640,708	$256.3

On December 16, 1994, the Company announced its intention to make a normal course issuer bid to purchase up to 1,551,020 common shares of the Company, representing 5% of the Company's outstanding common shares. The bid was for a one year period from the date of announcement. For the year ended June 30, 1996, the Company acquired 137,500 shares (1995 — 242,200) for cancellation at a cost of $2.0 million (1995 — $3.3 million). Of this $2.0 million (1995 — $3.3 million), $1.2 million (1995 — $2.0 million), which represents the product of the number of shares purchased and the average issue price of the common shares, was applied to share capital and the balance of $0.8 million (1995 — $1.3 million) was charged to retained earnings.

9. **Common Share Capital: (Continued)**

(c) ***Dividends Paid:***

During each of the nine month periods ended March 31, 1997 and 1996, the Company paid $7.4 million or $0.24 per outstanding common share (June 30, 1996 — $9.8 million, June 30, 1995 and 1994 — nil) of dividends to the holders of its common shares.

10. **Financing Costs:**

Financing costs for the continuing operations consist of the following:

	Nine Months Ended March 31		Year Ended June 30		For the Period December 16, 1993 to June 30, 1994
	1997	1996	1996	1995	
				(restated)	(restated)
Preferred share dividends	$ —	$ —	$ —	$1.0	$2.7
Interest expense	0.2	0.6	0.8	1.8	—
	$ 0.2	$ 0.6	$ 0.8	$2.8	$2.7

Financing costs relating to the Interior Operations are included as part of earnings from discontinued operations.

11. **Income Taxes:**

The Company's effective income tax rate for the continuing operations differs from the Canadian statutory income tax rate. The principal factors causing the difference are as follows:

	Nine Months Ended March 31		Year Ended June 30		For the Period December 16, 1993 to June 30, 1994
	1997	1996	1996	1995	
		(restated)	(restated)	(restated)	(restated)
Earnings before income taxes	$ 37.9	$14.4	$27.7	$105.6	$44.2
Income taxes at statutory rates	$ 17.3	$ 6.5	$12.6	$ 47.9	$20.0
Large corporation tax	0.8	0.4	0.8	0.7	0.6
Manufacturing and processing deduction	(0.7)	(0.4)	(0.9)	(3.3)	(1.6)
Benefit of loss utilization	(4.0)	(0.6)	(1.1)	(4.4)	—
Preferred share dividends presented as a financing cost	—	—	—	0.3	0.8
Other	(0.4)	(0.4)	(0.1)	0.2	(1.0)
Income taxes	$ 13.0	$ 5.5	$11.3	$ 41.4	$18.8
Income and other taxes are represented by:					
Current income tax	$ 22.3	$ 1.5	$ 4.3	$ 26.9	$ 1.5
Deferred income tax	(10.1)	3.6	6.2	13.8	16.7
Large corporation tax	0.8	0.4	0.8	0.7	0.6
Income taxes	$ 13.0	$ 5.5	$11.3	$ 41.4	$18.8

	Nine Months Ended March 31		Year Ended June 30		For the Period December 16, 1993 to June 30, 1994
Tax rate %	1997	1996	1996	1995	
Income taxes at statutory rates	45.6%	45.4%	45.5%	45.4%	45.3%
Large corporation tax	2.1	2.9	2.7	0.7	1.3
Manufacturing and processing deduction	(1.8)	(3.0)	(3.2)	(3.1)	(3.7)
Benefit of loss utilization	(10.6)	(4.3)	(4.0)	(4.2)	—
Preferred share dividends presented as a financing cost	—	—	—	0.3	2.0
Other	(1.0)	(2.8)	(0.2)	0.1	(2.3)
Income taxes	34.3%	38.2%	40.8%	39.2%	42.6%

12. **Related Party Transactions:**

Related parties include FCCL and its subsidiaries which collectively own 15,820,408 (51.6%) of the Company's outstanding common shares and Fletcher Challenge Limited of New Zealand and its subsidiaries. During each of the periods ended March 31, 1997 and 1996 FCCL and its subsidiary were paid $3.8 million (June 30, 1996 — $5.1 million, June 30, 1995 and 1994 — nil) of common share dividends by the Company.

12. **Related Party Transactions: (Continued)**

On December 16, 1993, the Company acquired certain of the forest product assets and businesses of FCCL and its subsidiary EFFIL (note 1(a)). During the year ended June 30, 1996, the Company purchased the Mackenzie wood product operations of FCCL (note 1(b)).

The Company invests some of its cash balances with FCCL. The investments are short term and are repayable on demand. At March 31, 1997, the balance on deposit was nil (June 30, 1996 and 1995 — nil, June 30, 1994 — $20 million). Interest rates are based on prevailing bankers' acceptance rates; no interest was received from FCCL during the period ended March 31, 1997 (June 30, 1996 — nil, June 30, 1995 — $0.3 million, June 30, 1994 — $0.5 million). As well, the Company has drawn on its unsecured credit facility with FCCL (note 7). At March 31, 1997 there was a balance of $44.5 million outstanding under this facility (June 30, 1996 — $53.0 million, June 30, 1995 and 1994 — nil). Interest from continuing operations of $0.2 and $0.6 million was paid to FCCL during the period ended March 31, 1997 and 1996 respectively (June 30, 1996 — $0.8 million, June 30, 1995 — $1.8 million, June 30, 1994 — nil).

The prices and terms of sales and purchase transactions with related parties are in accordance with normal trade practices. The amount of trade receivables from related parties at March 31, 1997 was $8.8 million, (June 30, 1996 — $8.1 million, June 30, 1995 — $11.6 million, June 30, 1994 — $6.1 million), while the amount of trade payables to related parties was $6.3 million at March 31, 1997 (June 30, 1996 — $6.4 million, June 30, 1995 — nil, June 30, 1994 — $5.0 million). Net sales from continuing operations to related parties for the nine month periods ended March 31, 1997 and 1996 amounted to $12.0 million and $34.5 million respectively (June 30, 1996 — $38.2 million, June 30, 1995 — $46.6 million, June 30, 1994 — $13.3 million). Purchases and various services provided to and received from related parties resulted in net receipts by the continuing operations of the Company during the period ended March 31, 1997 and 1996 of $1.8 million and $0.4 million respectively (June 30, 1996 — $1.8 million, June 30, 1995 — net payments of $1.3 million, June 30, 1994 — net payments of $3.3 million).

During the year ended June 30, 1994, the Company acquired, at market value, a company with $134.1 million in non-capital loss carry-forwards from a related company for cash consideration of $37.5 million. The Company received $4.0 million in fiscal 1997 as an adjustment to the purchase price as provided for in the purchase agreement. This amount is included in accounts receivable. By March 31, 1997, all of the non-capital loss carry-forwards were utilized and the net benefit recognized in other income. Previously, the cost of the future tax benefits had been included in other assets (note 6).

During 1995, the Company had $115 million of preferred shares held by related parties outstanding for a portion of the year. Dividend payments on the preferred shares held by related parties were $1.0 million for the 1995 year (1994 — $2.7 million) and are classified as a financing cost. All of these preferred shares were redeemed in fiscal 1995 (note 8).

At March 31, 1997, TimberNorth Forest Limited had $157.5 million (June 30, 1996 — $158.6 million) of outstanding preferred shares held by FCCL (note 1(b) and 8). During the nine month period ended March 31, 1997 $4.6 million of dividends (June 30, 1996 — $2.9 million, June 30, 1995 and 1994 — nil) were paid on the preferred shares which are included as part of earnings from discontinued operations (note 15).

13. **Pensions:**

The Company maintains pension plans which include defined benefit and defined contribution segments available to all salaried employees and to hourly employees not covered by union pension plans. Effective

13. **Pensions: (Continued)**

January 1, 1994 all eligible employees were offered the option of converting from the defined benefit segment to the defined contribution segment. Employees hired subsequent to January 1, 1994 are enrolled in the defined contribution segment. Based on the most recent actuarial valuations of these plans as of July 1, 1996, there was no unfunded liability for past service.

Utilizing management estimates, the status of the defined benefit pension plans is as follows:

	As at March 31, 1997	As at June 30 1996	As at June 30 1995
	(in millions of dollars)		
Present value of accrued pension benefits	$84.4	$81.5	$79.3
Pension fund assets	$99.7	$91.1	$86.1

Unionized employees of the Company are members of industry wide defined contribution plans to which the Company contributes a pre-set amount per hour worked by an employee. The Company has no further obligations relating to the pension benefits of its unionized employees.

14. **Segmented Information:**

The Company operates in the solid wood products industry and all of the Company's manufacturing operations are located in British Columbia, Canada.

Net sales for the continuing operations by geographic segment are as follows:

	Nine Months Ended March 31		Year Ended June 30		For the Period December 16, 1993 to June 30, 1994
	1997	1996	1996	1995	
			(in millions of dollars)		
Canada	$173.8	$164.5	$234.9	$305.8	$137.7
United States	1.5	0.9	1.3	0.9	0.9
Japan	65.5	47.3	58.0	84.1	39.3
Other Offshore	6.8	7.5	9.2	5.9	3.0
	$247.6	$220.2	$303.4	$396.7	$180.9

Net sales for the continuing operations by product are as follows:

	Nine Months Ended March 31		Year Ended June 30		For the Period December 16, 1993 to June 30, 1994
	1997	1996	1996	1995	
			(in millions of dollars)		
Lumber	$ 83.3	$ 61.4	$ 76.1	$101.8	$ 50.9
Logs	154.2	143.1	209.0	277.7	122.8
Other	10.1	15.7	18.3	17.2	7.2
	$247.6	$220.2	$303.4	$396.7	$180.9

15. **Discontinued Operations:**

On ● , the Company adopted a formal plan to dispose of the assets and business of TimberWest's Interior Operations (the "discontinued operations").

Net sales and income taxes applicable to the discontinued operations are as follows for the periods indicated:

	Nine Months Ended March 31		Year Ended June 30		For the Period December 16, 1993 to June 30, 1994
	1997	1996	1996	1995	
	(in millions of dollars)				
Net sales	$200.2	$ 94.1	$155.5	$ 98.4	$50.3
Income taxes	$ 6.1	$ 3.3	$ 4.9	$ 4.9	$ 6.8

The assets and liabilities of the continuing and discontinued operations as at March 31, 1997 are as follows:

	Consolidated Operations	Discontinued Operations	Continuing Operations
	(unaudited)	(unaudited)	(unaudited)
	(in millions of dollars)		
Assets			
Current assets	$214.9	$124.1	$ 90.8
Investment in and advances to discounted operations	—	(69.8)	69.8
Fixed assets, net	526.3	197.2	329.1
Other assets	9.5	1.5	8.0
	$750.7	$253.0	$497.7
Liabilities and Shareholders' Equity			
Current liabilities	$158.6	$ 69.9	$ 88.7
Long-term silviculture liability	24.7	20.0	4.7
Deferred income taxes	24.0	5.6	18.4
Preferred shares	157.5	157.5	—
Common shareholders' equity	385.9	—	385.9
	$750.7	$253.0	$497.7

16. **Countervailing Duty Refund:**

During the period March 12, 1992 to August 17, 1994, the government of the United States imposed a countervailing duty ("CVD") on all softwood lumber imported into the United States from Canada. In December 1994, they agreed to refund the CVD paid with interest.

In fiscal 1995, the Company recorded $6.9 million in other income of which $4.3 million was paid or accrued by FCCL and Elk Falls Forest Industries Limited prior to the acquisition of certain of their operations by the Company on December 15, 1993. At June 30, 1995 the Company had received $2.2 million and the balance was received by June 30, 1996.

17. **Subsequent Events:**

(a) In October, 1996 the Board of Directors determined that it would be in the best interest of TimberWest to provide incentives for senior management to remain with TimberWest despite the uncertainty as to TimberWest's future. Accordingly, TimberWest entered into incentive and severance agreements with 11 of its executive officers.

(b) On March 7, 1997, the Board of Directors announced that it had received a joint unsolicited offer (the "TAL Offer") from TAL Acquisition Ltd. ("TAL") and Slocan Forest Products Ltd. ("Slocan") pursuant to which TAL offered to purchase all of the common shares of TimberWest at a price of $22 per share. As part of the TAL offer, Slocan will acquire the Interior Operations for $210 million plus the operating loan of the Company attributed to the Interior Operations at the completion date. Accordingly these operations have been presented as discontinued operations (note 15). The TAL Offer is subject to Ministry of Forests' and Shareholder approval. If these approvals are obtained, the Company expects these agreements to be completed in June, 1997.

If prior to completion any of the parties other than TAL breaches in a material way certain covenants in the agreements relating to these transactions and the agreements are terminated, TimberWest must pay TAL $13.5 million as compensation for the time and effort expended by TAL in obtaining commitments for the financing necessary to complete the transactions, and $2 million to each of TAL and Slocan for fees and expenses incurred.

Under the agreement with TAL, FCCL will assign its rights and obligations under the interest rate swap agreement (note 7) to TAL.

(c) All of the preferred shares issued by TimberNorth Forest Limited were redeemed on April 1, 1997 using funds borrowed from FCCL under additional term facilities provided by FCCL to TimberWest. As a result, the Company is indebted to FCCL for an additional amount of $34.4 million and U.S. $90 million.

CERTIFICATE OF TIMBERWEST TIMBER TRUST AND PROMOTER

Dated: May 5, 1997

The foregoing constitutes full, true and plain disclosure of all material facts relating to the securities offered by this prospectus as required by the *Securities Act* (British Columbia), by Part 8 of the *Securities Act* (Alberta), by Part XI of *The Securities Act*, 1988 (Saskatchewan), by Part VII of *The Securities Act* (Manitoba) and by Part XV of the *Securities Act* (Ontario) and the respective regulations thereunder.

TIMBERWEST TIMBER TRUST

On behalf of the Trustees

(Signed) JAMES M.I. BRUCE

(Signed) R. KEITH PURCHASE

On behalf of the Promoter:

TAL ACQUISITION LTD.

By: (Signed) KENNETH A. SHIELDS
President and Chief
Executive Officer

CERTIFICATE OF THE AGENT

Dated: May 5, 1997

To the best of our knowledge, information and belief, the foregoing constitutes full, true and plain disclosure of all material facts relating to the securities offered by this prospectus as required by the *Securities Act* (British Columbia), by Part 8 of the *Securities Act* (Alberta), by Part XI of *The Securities Act*, 1988 (Saskatchewan), by Part VII of *The Securities Act* (Manitoba) and by Part XV of the *Securities Act* (Ontario) and the respective regulations thereunder.

GOEPEL SHIELDS & PARTNERS INC.

By: (Signed) DONALD M. SHUMKA

The following includes the name of each person having an interest, directly or indirectly, to the extent of not less than five percent in the capital of GOEPEL SHIELDS & PARTNERS INC.: K.A. Shields, D.E. Roberts, R.E.T. Goepel, P.B. Nixon, K.R. Cory and H. Kerr.