

Appendix A

Forest Act

53(1) In this part:

"control of a corporation" means the holding, other than by way of security only, by or for the benefit of a person or a group of persons not dealing with each other at arm's length, of shares in a corporation that, in an election of the directors of the corporation, carry, in the aggregate, sufficient voting rights, if those rights are exercised, to elect 50% or more of the effective directors or to otherwise effectively control the operations and direction of the corporation;

Change in control of a corporation that is the holder of an agreement

54.5 (1) Without notice and despite section 77, the minister may cancel an agreement if the holder of the agreement is a corporation and

(a) the holder amalgamates with another corporation or, by means of one or a series of transactions, the control of the holder, or of another corporation that directly or indirectly controls the holder, changes, is acquired or is disposed of, and

(b) immediately after completion of the amalgamation, the change of control, the disposition of control or the acquisition of control, all as set out in paragraph (a),

(i) all money

(A) required to be paid to the government under the circumstances set out in section 130 (1.1), and

(B) due and payable to the government under that section

in respect of the agreement

(C) has not been paid, and

(D) is not the subject of an arrangement for payment approved by the revenue minister,

(ii) in the case of an agreement that is a tree farm licence, forest licence or pulpwood agreement, the minister is satisfied that the change of control, the disposition of control or the acquisition of control unduly restricts competition in the standing timber market, log market or chip market,

(iii) in the case of an agreement that is a BC timber sales agreement, the change of control, the disposition of control or the acquisition of control results in the BC timber sales agreement being held by a person who is not registered in the applicable category of BC timber sales enterprises,

(iv) in the case of an agreement that is a woodlot licence, the change of control, the disposition of control or the acquisition of control results in the woodlot licence being held by a person who, under section 44 or 46.1, is not permitted to enter into a woodlot licence, or

(v) on the date of the disposition, rights under the agreement are suspended, in whole or in part, under section 76 or 78.

Appendix B

WESTERN FOREST PRODUCTS INC.
Form:20-F/A Filing Date:1/4/2006 Jump to: FORM 20-F/A

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ITEM 7. MAJOR SHAREHOLDERS AND RELATED PARTY TRANSACTIONS

A. MAJOR SHAREHOLDERS

To our knowledge, as of June 21, 2005 the following parties beneficially own, directly or indirectly, or exercise control or direction over, 5% or more of the outstanding Common Shares:

NAME AND MUNICIPALITY OF RESIDENCE OF SHAREHOLDER	NO. OF COMMON SHARES	PERCENTAGE OF ISSUED COMMON SHARES
Harbert Distressed Investment Master Fund, Ltd. ("Master Fund"), HMC Distressed Investment Offshore Manager, L.L.C. and HMC Investors L.L.C. (collectively, "Harbert") (1) Dublin, Ireland, in the case of the Master Fund and New York, NY, in the case of the others	8,065,910	31.5%
Tricap Management Limited (2) Toronto, Ontario	5,138,228	20.5%
Merrill Lynch Investment Managers, L.P. ("MLIM") (3) Plainsboro, New Jersey	3,205,162	12.5%

Appendix B (cont'd)

Consolidated Financial Statements
(Expressed in Canadian dollars)

WESTERN FOREST PRODUCTS INC.

Years ended December 31, 2006 and 2005

MANAGEMENT'S RESPONSIBILITY FOR FINANCIAL STATEMENTS

The management of Western Forest Products Inc. is responsible for the accompanying Consolidated Financial Statements and all other information in the Management's Discussion and Analysis. The financial statements have been prepared by Management in accordance with Canadian generally accepted accounting principles and, where necessary, reflect Management's best estimates and judgments at this time. The financial information presented throughout the Management's Discussion and Analysis is consistent with that contained in the Consolidated Financial Statements.

Western maintains systems of internal accounting controls, policies and procedures to provide reasonable assurances as to the reliability of the financial records and the safeguarding of its assets. Management meets the objectives of internal accounting control on a cost-effective basis through the prudent selection and training of personnel, adoption and communication of appropriate policies, and employment of an internal audit program.

The Board of Directors oversees Management's responsibilities for the Consolidated Financial Statements primarily through the activities of its Audit Committee, which is composed solely of independent directors of the Company. This Committee meets with Management and the Company's independent auditors KPMG LLP to review the Consolidated Financial Statements and recommend approval by the Board of Directors. The Audit Committee is also responsible for making recommendations with respect to the appointment, remuneration and the terms of engagement of the Company's auditors. The Audit Committee also meets with the Auditors, without the presence of Management, to discuss the results of the audit and related findings.

The Consolidated Financial Statements have been audited by KPMG LLP, who were appointed by the shareholders at the annual shareholders' meeting. The auditors' report follows.

(SIGNED) Reynold Hert
*President and
Chief Executive Officer*

(SIGNED) Paul Ireland
Chief Financial Officer

March 2, 2007, except as to note 8
which is as of March 8, 2007

WESTERN FOREST PRODUCTS INC.

Notes to Consolidated Financial Statements

(Tabular amounts expressed in millions of Canadian dollars, except per share amounts)

Years ended December 31, 2006 and 2005

12. Share capital:

(a) Authorized and issued share capital:

The Company's authorized capital consists of an unlimited number of common shares (the Common Shares), an unlimited number of non-voting shares (the Non-Voting Shares) and an unlimited number of preferred shares. The Common Shares entitle the holders thereof to one vote per share. The Non-Voting Shares do not entitle the holders to any votes at meetings of our shareholders except that they will be entitled to one vote per share relating to certain matters including liquidation, dissolution and winding-up. The Common Shares and Non-Voting Shares rank equally as to participation in a distribution of the assets of the Company on a liquidation, dissolution or winding-up of the Company and as to the entitlement to dividends.

Issued and outstanding Common and Non-Voting Shares are as follows:

	Number of Common Shares	Amount	Number of Non-Voting shares	Amount
Balance at December 31, 2004	25,635,424	\$ 255.2	-	\$ -
Cancelled	(3,629)	-	-	-
Balance at December 31, 2005	25,631,795	255.2	-	-
Rights issue	94,210,564	155.4	84,571,206	139.6
Balance at December 31, 2006	119,842,359	\$ 410.6	84,571,206	\$ 139.6

During 2006, the Company raised a total of \$295.0 million through a rights offering of 178.8 million subscription receipts pursuant to a final prospectus dated January 31, 2006. The proceeds were used to provide financing for the acquisition of Cascadia (see note 2) and to provide funding for some of the structural changes that need to be made to the combined business and provide additional liquidity. Under the terms of the rights offering, shareholders received in respect of each Common Share a right entitling the holder to subscribe for 6.975 subscription receipts of the Company with each subscription receipt representing the right to receive one Common Share at a price of \$1.65 per subscription receipt. The rights were listed for trading on the Toronto Stock Exchange and were exercisable until March 9, 2006.

Pursuant to the terms of a standby agreement with the Company, Tricap purchased at a price of \$1.65 per subscription receipt, 51 million subscription receipts that had not been purchased by other rights holders under the rights offering following which it held a total of 138.2 million subscription receipts.

WESTERN FOREST PRODUCTS INC.

Notes to Consolidated Financial Statements

(Tabular amounts expressed in millions of Canadian dollars, except per share amounts)

Years ended December 31, 2006 and 2005

12. Share capital (continued):

(a) Authorized and issued share capital (continued):

In accordance with the terms of the Subscription Receipts Agreement, on May 1, 2006, the Company permitted only 94.2 million of the 178.8 million subscription receipts outstanding to be exchanged for 94.2 million Common Shares. As a result, Tricap was permitted to exchange 53.6 million subscription receipts for Common Shares resulting in Tricap holding 58.7 million (49%) of the Company's 119.8 million Common Shares now issued and outstanding. The remaining 84.6 million subscription receipts held by Tricap were converted to 84.6 million Non-Voting Shares following the creation of this new class of shares at the Company's Annual and Special Meeting on June 16, 2006. The holders of the Non-Voting Shares have certain registration rights, exercisable after May 1, 2009, that enable them to require the Company to assist them with a public offering of the Non-Voting Shares or Common Shares for which the Non-Voting Shares may be exchanged, subject to certain limitations.

The \$295.0 million funds received on the rights offering were held in escrow and were not available to the Company until certain conditions were met, the principal one being the closing of the acquisition of Cascadia. Accordingly, for financial statement purposes the funds were not shown on the balance sheet until May 1, 2006, the date that the acquisition of Cascadia closed (see note 2).

(b) Stock-based compensation plan:

The Company has an incentive stock option plan (the Option Plan), which permits the granting of options (Options) to eligible participants to purchase up to an aggregate of 2,500,000 Common Shares.

Each Option is exercisable, subject to vesting terms of 20% per year and immediately upon a change in control of the Company, into one Common Share, subject to adjustments, at a price of not less than the closing price of the Common Shares on the Toronto Stock Exchange (TSX) on the day immediately preceding the grant date. Options granted under the Option Plan expire, generally, a maximum of ten years from the date of the grant.

The following table summarizes the Options outstanding at December 31, 2006 and 2005:

	2006		2005	
	Number of shares	Weighted average exercise price	Number of shares	Weighted average exercise price
Outstanding, beginning of year	399,590	\$ 8.14	299,590	\$ 9.72
Granted	1,905,000	1.75	100,000	3.39
Exercised	-	-	-	-
Cancelled	(16,530)	12.10	-	-
Outstanding, end of year	2,288,060	\$ 2.79	399,590	\$ 8.14

Appendix C

WESTERN FOREST PRODUCTS INC.



Annual Information Form – March 27, 2006

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INTRODUCTION

Western Forest Products Inc. was incorporated under the *Canada Business Corporations Act* ("CBCA") on April 27, 2004 under the name "4204247 Canada Inc." On June 21, 2004, we changed our name to "Western Forest Products Inc."

On July 27, 2004, Doman Industries Limited ("Doman") and certain subsidiaries (collectively, the "Predecessor") implemented its plan of compromise and arrangement (the "Plan") and emerged from protection under the *Companies' Creditors Arrangement Act* (Canada) ("CCAA"). We were incorporated for the purposes of implementing the Plan and on July 27, 2004, the Plan Implementation Date, we acquired the solid wood and pulp assets of the Predecessor. Until the Plan was implemented, we did not carry on business and had no material assets or liabilities. We commenced business on July 28, 2004 after the implementation of the Plan.

Where appropriate, the discussion in this report covers the operation of our business for the year ended December 31, 2005 compared with our operations for the period from July 28, 2004 to December 31, 2004 together with the Predecessor's operations from January 1, 2004 to July 27, 2004 and with the operations of the Predecessor for the year ended December 31, 2003. This is intended to help security holders and other readers understand our business and certain key factors underlying our financial results. However, consolidated financial information and other operating information subsequent to the Plan implementation may not be comparable with the consolidated financial information and other operating information of the Predecessor prior to the Plan implementation due to differences in our corporate and financial structure from that of the Predecessor, the application of "fresh start" accounting as explained in notes 1 and 17 of our consolidated financial statements as a result of the implementation of the Predecessor's Plan and differences in certain accounting policies from those applied by the Predecessor. Accordingly, comparisons of our results with those of the Predecessor should be undertaken with caution and any discussion related thereto reviewed with caution.

In this Annual Information Form, unless the context otherwise requires, the "Company", "we", "us", and "our" and similar terms refer to Western Forest Products Inc. and its subsidiaries and "Western" refers to Western Forest Products Inc. Certain other terms used in this Annual Information Form are defined under "*Glossary of Certain Terms*" which can be found at the end of this document, starting at page 46.

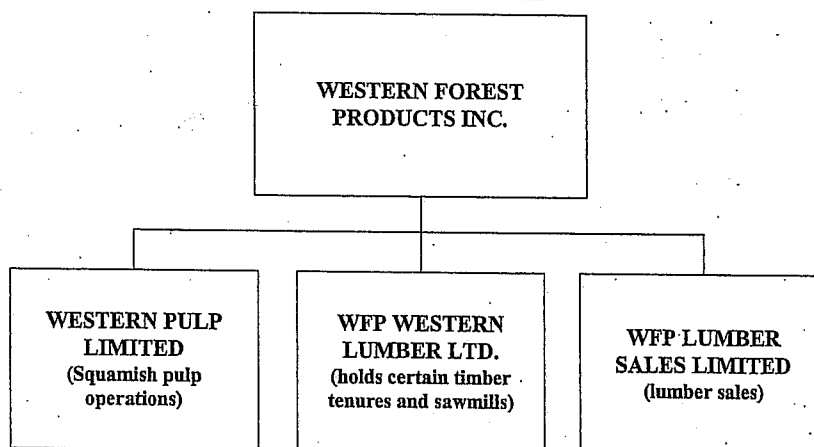
All dollar amounts in this Annual Information Statement are expressed in Canadian dollars, unless otherwise indicated.

All information in this Annual Information Statement is as of March 27, 2006, unless otherwise indicated.

CORPORATE STRUCTURE

Our head office is located at 3rd Floor, 435 Trunk Road, Duncan, British Columbia, V9L 2P9 and our registered office is located at Suite 2100, 1075 West Georgia Street, Vancouver, British Columbia, V6E 3G2.

All of our subsidiaries are wholly-owned and were incorporated or continued under, and are all governed by, the CBCA (other than WFP Timber Limited, incorporated under the *Business Corporations Act* (British Columbia)). The following chart sets out our significant subsidiaries and their primary activities.



GENERAL DEVELOPMENT OF THE BUSINESS

History

The Predecessor's first major sawmill came into production at Ladysmith, British Columbia on Vancouver Island in 1967 and three additional sawmills were built on Vancouver Island between 1973 and 1980. In 1980, the Predecessor and two other British Columbia forest products companies purchased the British Columbia timber resources and manufacturing facilities of ITT Industries of Canada Limited. The Predecessor increased its ownership and subsequently purchased the remaining minority shareholdings. In 1994, the Predecessor completed the construction of a value-added lumber remanufacturing plant at Chemainus on Vancouver Island. In 1997, the Predecessor acquired certain assets from Pacific Forest Products Limited, including three sawmills, timber tenures having an allowable annual cut ("AAC") of approximately 1.7 million cubic metres ("m³") from Crown timber and a perpetual supply of 330,000 to 350,000 m³ of sawlogs under a saw log agreement with a third party.

In 2002 the Predecessor experienced significant liquidity constraints and did not have the financial capability to make payments on debts as they become due, and consequently filed for protection under the CCAA. On November 7, 2002, our Predecessor was granted protection from its creditors pursuant to the CCAA. Over the ensuing months, the Predecessor negotiated with various stakeholders to develop a plan of compromise and arrangement. In addition, during this time, the Predecessor took several steps to downsize its operations in order to preserve cash resources, including extensive curtailment in production, reduction of working capital and disposition of certain assets. The Predecessor also ceased operations at and dismantled three sawmills. On May 11, 2004, the Predecessor sold its Port Alice pulp mill to Port Alice Specialty Cellulose Inc. ("PASCI"), an affiliate of LaPointe Partners Inc.

The Plan reflects the agreement reached by Doman with certain of its unsecured noteholders after extensive negotiations. The Plan was approved by the Predecessor's unsecured creditors on June 7, 2004 and sanctioned by the Court on June 11, 2004. On July 27, 2004, the Predecessor implemented the Plan and emerged from protection under the CCAA. We were incorporated for the purposes of implementing the Plan and on July 27, 2004, the Plan Implementation Date, we acquired the Solid Wood Assets and Pulp Assets of the Predecessor. Until the Plan was implemented, we did not carry on business and had no material assets or liabilities. We commenced business on July 28, 2004 after the implementation of the Plan. See "*The Plan*".

(For a more detailed discussion of the Predecessor's financial situation leading to the CCAA proceedings and the restructuring efforts please see the Information Circular and Proxy Statement of our Predecessor dated May 7, 2004 and Doman's Form 20-F dated May 21, 2004, which can be found at www.sedar.com under the name, Doman Industries Limited.)

The Plan

The purpose of the Plan was to compromise the claims of the Predecessor's affected creditors so as to enable the Predecessor's solid wood and pulp businesses to be carried on under a new corporate structure, with relief from the debt servicing and repayment obligations that it was subject to at that time, and facilitate the refinancing of Doman's senior secured notes through the distribution of certain warrants (exercisable for Western's Secured Bonds and Common Shares) and the sale of certain private placement units consisting of Secured Bonds and Common Shares. For a description of the significant steps in the implementation of the Plan see Note 17 to our consolidated financial statements.

In connection with the implementation of the Plan of the Predecessor, effective as of June 28, 2004, we issued 110,426 Class A and B Warrants under our Class A and B Warrant Indenture to affected creditors of the Predecessor. The Class A and B Warrants entitled the holders to acquire Plan Units, each Plan Unit consisting of U.S.\$1,000 principal amount of our Secured Bonds and 29 Common Shares, until July 19, 2004 at a price of U.S.\$950 per Plan Unit. The Standby Purchasers agreed to subscribe for and take-up any Plan Units not subscribed for by affected creditors of the Predecessor pursuant to the exercise of the Class A and B Warrants and to subscribe for additional units, each unit consisting of U.S.\$1,000 principal amount of our Secured Bonds and 29 Common Shares, at a price of U.S.\$950 per unit.

On the Plan Implementation Date, in connection with the implementation of the Plan, 19,226,931 Common Shares were distributed to the affected creditors of the Predecessor, 2,890,053 Common Shares and U.S.\$99,657,000 principal amount of Secured Bonds were issued to the holders of the Class A and B Warrants upon the exercise of Class A and B Warrants, and 3,518,947 Common Shares and U.S.\$121,343,000 principal amount of Secured Bonds were issued to the Standby Purchasers pursuant to their standby commitment and a concurrent private placement. (4,136 Common Shares were subsequently cancelled due to the resolution of a disputed claim in the Predecessor's CCAA proceedings.)

Also, in connection with the implementation of the Plan of the Predecessor, 569,373 Tranche 1 Class C Warrants, 854,146 Tranche 2 Class C Warrants and 1,423,743 Tranche 3 Class C Warrants were issued effectively on the Plan Implementation Date for no consideration, to certain Doman shareholders in accordance with the terms of the Plan. See "*Capital and Debt Structure - Class C Warrants*".

On August 3, 2004, the Common Shares began trading on the Toronto Stock Exchange ("TSX") under the symbol "WEF".

For further information about the Plan, please see the Information Circular and Proxy Statement of the Predecessor pertaining to the Plan dated May 7, 2004 and related documents of the Predecessor, which documents are available at <www.sedar.com> under the Predecessor's name, Doman Industries Limited.

Recent Developments

We have determined that our core business activities will focus on the solid wood business, specifically logging from Crown timberlands in the British Columbia coastal regions and the manufacture of lumber for sale in global markets, all within an efficient low-cost framework. We have been considering options with respect to our non-core assets, including surplus real estate, our Squamish pulp operations and the realization of maximum value from our private timberlands. We have taken several important steps during 2005 to implement this strategy.

Acquisition of Cascadia and Related Financings

On November 10, 2005, we announced the acquisition (the "Acquisition") of Cascadia Forest Products Ltd. ("Cascadia") for approximately \$120 million plus net working capital, payable in cash on closing. The Acquisition is subject to regulatory approvals and is expected to close in April of 2006.

Cascadia is a coastal British Columbia integrated lumber producer that harvests timber and produces high value, high quality wood products for customers worldwide. It is the largest Crown tenure holder in coastal British Columbia, with an AAC of approximately 3.6 million m³ after the *Forest Revitalization Act* (British Columbia) ("FR Act") AAC take back. Cascadia is one of the largest lumber producers on the British Columbia coast, owning and operating four specialized sawmills with an aggregate annual production capacity of approximately 570 million board feet of lumber, a "custom cut" operation and four remanufacturing facilities. For further details about the Acquisition and about Cascadia, see our prospectus dated January 31, 2006 (the "Rights Offering Prospectus") under the heading "*Acquisition of Cascadia*" (which is incorporated herein by this reference).

We also announced that we would be funding the Acquisition and adding to working capital through a \$295 million offering of rights to acquire Subscription Receipts exchangeable for Common Shares on the closing of the Acquisition (the

"Rights Offering"), and that we would be refinancing our existing Secured Bonds through new senior secured credit facilities in accordance with the Bridge Lending Commitment in the amounts of U.S.\$187.5 million and Cdn \$90 million.

On February 3, 2006 we announced the filing of the Rights Offering Prospectus, and that shareholders of Western of record as of the close of business (Toronto time) on February 13, 2006, other than those in certain ineligible jurisdictions, would receive one right for each Common Share held. Each right allowed the holder to subscribe for 6.975 subscription receipts at a price of \$1.65 per subscription receipt on or before 4:00 p.m. (Toronto time) on March 9, 2006. For further details of the Rights Offering, see the Rights Offering Prospectus under the heading "*Details of the Rights Offering*".

A total of approximately 127.5 million Subscription Receipts were subscribed for by rightholders for proceeds of approximately \$210 million. Pursuant to a Standby Agreement dated November 10, 2005, Tricap Management Limited ("Tricap Management") purchased the approximately 51.3 million Subscription Receipts not purchased by other rightholders for consideration of approximately \$85 million. As such, as of March 16, 2006, approximately 178.8 million Subscription Receipts had been issued for aggregate proceeds of \$295 million.

On February 6, 2006 we announced that we had instructed the Secured Bond Trustee for our U.S.\$221 million 15% Secured Bonds to issue a redemption notice to all Secured Bond holders. The redemption notice was issued on February 8, 2006 resulting in the existing Secured Bonds together with all accrued interest being redeemed on March 10, 2006 with the proceeds of the new senior secured credit facilities from Brookfield Bridge Lending Fund Inc. ("BBLF").

On March 10, 2006 we entered into the new senior secured credit facilities from BBLF. The loan consists of two term facilities, a four year U.S.\$187.5 million facility, and a one-year \$90 million facility, which may be extended for a second year at our option. The secured loan is non-amortizing and is pre-payable, in whole or in part, at any time on three business days' notice and subject to certain minimum amounts. Interest on amounts drawn under the US facility will be charged at the floating US one-month LIBOR rate plus 8.15%. Interest on the Canadian facility will be charged at the Canadian prime rate plus 5.25%. See "*Capital and Debt Structure – Senior Secured Facilities*".

Acquisition of the Englewood Logging Division and New Long-Term Fibre Supply Agreement

On December 15, 2005, we also announced that we had agreed to purchase from a newly formed partnership (the "Partnership") of Canadian Forest Products Ltd. ("Canfor") and Oji Paper Canada Ltd. tree farm license 37 ("TFL 37") on Vancouver Island and certain related assets owned by Canfor for \$45 million plus the value of certain log inventories. This acquisition closed on March 17, 2006. The private lands that are included in TFL 37 will be transferred to us on receipt of approval from the Minister of Forests. In the interim we are able to harvest logs from those private lands.

The Englewood Logging Division is located on northern Vancouver Island adjacent to Western's main logging operations and currently comprises approximately 945,000 cubic meters of annual harvesting rights under TFL 37. The harvest rights under TFL 37 include approximately 6,800 hectares of private lands. TFL 37 is currently undergoing a timber supply review and may be subject to a possible AAC reduction in the future. The acquisition also includes three timber licenses ("TLs"), existing capital improvements and infrastructure, machinery, equipment and railway rolling stock. We have assumed certain contracts and equipment leases and have offered employment to all of the approximately 270 employees currently involved in harvesting operations but have not assumed any other material pre-closing liabilities relating to the assets.

On March 17, 2006, we also executed a 40 year fibre supply agreement (the "Fibre Supply Agreement") with the Partnership. As consideration for entering the Fibre Supply Agreement, we will receive a price premium that will be earned as wood chips are delivered under the agreement. A \$35.0 million non-refundable prepayment of the price premium was received on March 17, 2006 and applied to reduce the amount drawn under the Working Capital Facility. A further \$45 million price premium will be set-off against the consideration due on the acquisition of the Englewood Logging Division. We will record the price premium as deferred revenue and amortize it into income over the term of the agreement. We have granted a security interest in TFL 37 and related assets that will be released after the tenth anniversary except in certain circumstances. Enforcement of that security may be commenced in certain circumstances of default, including a failure to supply a minimum of 200,000 volumetric units of wood chips in any year and a minimum of 900,000 volumetric units over any three year period or certain defaults under the fibre supply agreement.

Restructuring Activities

On August 12, 2005, we announced the closure of our Silvertree sawmill and the indefinite suspension of operations at our Saltair sawmill. These measures will allow us to increase production and reduce unit costs at some of our remaining

sawmills in the short-term by moving to three shifts and to further increase productivity and reduce unit costs in the longer term by focusing our future capital programs on our best sawmills.

On December 15, 2005, we announced the closure of our Squamish pulp mill. Pulp production at the mill ceased on January 26, 2006 and site clean up continued until March 9, 2006 when most of the workforce ended their employment. The closure affects 323 employees in various locations. We recorded a fourth quarter charge to earnings of \$71.4 million including \$47.6 million with respect to the write down of property, plant and equipment and supplies and \$23.8 million with respect to severance and other costs. A further charge of approximately \$4.5 million is expected in the first quarter of 2006 with respect to the cancellation of certain long-term contracts. Negotiations between the Company and the union representing the hourly workers relating to the closure is ongoing. We are reviewing alternative uses for the site and are in discussions with Federal and Provincial authorities with respect to closure plans in the event the site is not sold.

Other Developments

In September 2005, we announced that we had terminated a log supply agreement with Timberwest under which Timberwest provided up to 330,000 cubic metres of saw logs annually from its private lands. We received \$15 million cash as consideration and recorded a gain of \$13.1 million.

In addition to the foregoing corporate developments, on November 23, 2005, we were notified that we had been selected as a mandatory respondent in the antidumping duty third administrative review of certain softwood lumber products from Canada. We were selected, along with seven other companies, under the United States Department of Commerce's ("USDOC") new "probability proportional to size" sampling methodology. The review covers the period from May 1, 2004 to April 30, 2005. We are currently posting antidumping duty deposits at the (second) administrative review-specific average rate of 2.11% on the value of our lumber shipments to the United States. (The rates of the mandatory respondents are averaged to determine the review-specific average rate.) Following the third review, we will post antidumping duties at a "company specific" rate that will be determined for us as a result of this review. We do not expect to receive the final results of the USDOC third review until December 2006, consistent with the timing of the USDOC second review determinations announced in 2005. See *"Business of the Company – Softwood Lumber Dispute"*.

Also on February 7, 2006, the Provincial Government announced land use decisions for the Central and North Coast that detail a vision for the use and management of public lands and resources in the region. The decisions pave the way for finalizing government to government land use agreements with First Nations. The decisions are the outcome of negotiations over a number of years that took place after a market campaign and involved interested stakeholders including the Provincial Government, First Nations, environmental groups, local communities and forest industry representatives. Our interests have been represented through membership of the Coast Forest Conservation Initiative, an industry group involved in the plan negotiations. The decision affects approximately 6.4 million hectares of land along the Central and North Coast areas of British Columbia and will result in more than one third of the land area being unavailable to logging. The areas available to logging will be managed under an ecosystem-based management framework. Our current AAC in the Central and North Coast region is approximately 615,000 m³. It is anticipated that this will be reduced once protected areas are established and ecosystem based management is fully implemented. We have not been harvesting its full AAC in this region for a number of years due to temporary reductions put in place during the negotiation period and uncertainty around operating areas. We do not anticipate a significant change in the current harvest rate in comparison to the harvest in recent years as a result of this decision. Discussions on the implementation of the decision, including any resulting compensation are ongoing. Although this land use decision represents a milestone in settling land use issues, it does not preclude action to be taken by interested stakeholders described above in respect of other land that we use. The land use decision, which will include ongoing negotiations with stakeholders, is expected to be fully implemented by 2009.

As previously disclosed, we are looking for opportunities to realize additional value through the sale of our 29,000 hectares of private timberlands. We have applied to the Ministry of Forests to remove these lands from their associated TFL and have engaged an advisor to assist us with the sales process. Proceeds from any sale would predominantly be used first to pay down the \$90 million Canadian long-term facility and thereafter the U.S. dollar long-term facility, subject to any funds retained and deposited in the working capital reserve, all in accordance with the terms of these new facilities.

BUSINESS OF THE COMPANY

Company Profile

We are a major integrated softwood forest products company operating in the coastal region of British Columbia. Our primary business is solid wood and includes timber harvesting, reforestation, forest management, sawmilling logs into lumber and wood chips and value-added lumber remanufacturing. Our lumber products are currently sold in over 20

countries worldwide. Historically, we also carried on pulp operations consisting of producing and marketing Northern Bleached Softwood Kraft ("NBSK") pulp. However, as discussed under "*General Development of the Business – Recent Developments*", on December 15, 2005 we announced the closure of our pulp mill and our decision to exit from the pulp business which became effective with the final production run on January 26, 2006 and the majority of the work force completed their employment on March 9, 2006.

Our current allowable annual timber harvest from our regulated forest tenures is approximately 3.3 million m³, having recently been reduced in connection with the province-wide timber take-back under the FR Act. In addition to the approximately 180,000 m³ of AAC from private timberlands included in our regulated forest tenures, we have an additional 100,000 and 19,000 m³, respectively, of volume available annually from unregulated timber licenses and private lands. Harvest operations are primarily conducted on government owned timberlands, in accordance with the terms and conditions of our tree farm licenses ("TFLs"), forest licenses ("FLs"), TLs and private lands external to these tenures.

As of the date hereof, our manufacturing plants consist of:

- five sawmills with a total annual production capacity of approximately 1.0 billion board feet of green lumber (including one sawmill on indefinite shutdown with annual production capacity of approximately 200 million board feet and annual kiln drying capacity of approximately 65 million board feet which we continue to operate) and annual by-product production capacity of approximately 650,000 units of wood chips;
- a value-added lumber remanufacturing plant with an annual lumber drying and production capacity of approximately 90 million board feet; and
- a log merchandiser that performs custom chipping for third parties.

Following the proposed Acquisition of Cascadia and the recent completion of the acquisition of Englewood Logging Division, our business will comprise nine sawmills with over 1.5 billion board feet of annual lumber capacity, five remanufacturing plants and timberland operations with approximately 7.7 million m³ of annual allowable cut from high-quality Crown-owned tenures on Vancouver Island, the British Columbia mainland coast and the Queen Charlotte Islands.

Strategy

Our long-term business objective is to create superior value for shareholders by building a margin focused lumber business located on the coast of British Columbia of sufficient size and scale to compete in global softwood lumber markets. To achieve this, our strategy is to own the rights to harvest high quality Crown-owned coastal timberlands, to operate efficient, low cost converting facilities and to produce and sell high value softwood lumber in demand by global markets. We seek to manage our business with a focus on operating cash flow and maximizing the value of our fibre resource through the whole production cycle from the planning of our logging operations to the production, marketing and sale of our lumber products.

Consistent with our focus on harvesting crown-owned coastal timberlands, subject to regulatory approval with respect to the private timberlands included in our regulated forest tenures, we are looking for opportunities to realize additional value through the sale of our 29,000 hectares of private timberlands (excluding the 6,800 hectares acquired in the Englewood Logging Division acquisition). The proceeds from the sale of these private timberlands would be applied to reduce our indebtedness incurred pursuant to the BBLF Facilities described herein or to the working capital reserve account established pursuant to the BBLF Facilities. We will also look for opportunities to reduce our cost of capital over time as we implement our strategy.

Operations

Our business is the harvesting of timber and the manufacture and sale of lumber for worldwide markets. Our sawmills process high quality logs, including hemlock, fir and western red cedar, into primarily long length, wide width and higher grade lumber, commodity grades of lumber and residual wood chips which are used for pulp production. Our value-added lumber remanufacturing plant dries, saws and trims lumber for use in producing higher value products such as mouldings, frames and panelling.

We believe that the efficient utilization of our timber resources is essential. Our timber harvesting business seeks to improve log quality and value to our milling conversion plants while providing a low cost fibre supply. We undertake external log sales to improve margin by selling higher value logs that do not currently fit the cutting profile of our sawmills.

Our operating results have been and continue to be affected by a number of factors, including economic conditions in the United States, Japan and Canada, which are the leading markets for our lumber products, and the increase in the value of the Canadian dollar relative to the U.S. dollar and, to a lesser degree, the Japanese Yen and the Euro. In all of these markets our competition is of a global nature as we increasingly face competing products from all regions.

Demand for our lumber products is significantly driven by the level of U.S. housing starts, and indirectly is a function of the health of the U.S. economy and mortgage borrowing rates. The supply of lumber to the United States is primarily tied to the levels of North American lumber production, the ability or inability of certain competitors to shift production between different lumber markets and, since May 2002, the countervailing and antidumping duties imposed by the United States upon Canadian producers of softwood lumber exports to the United States. We have furthermore over the past 5 years seen an increasing level of imported lumber from Europe on the American market. As a result, we are facing similar strong competition when trying to maintain significant lumber shipments to the United States. Another key market for our structural lumber is Japan. As a consequence, the conditions of the Japanese economy and competition from other supply areas in the world have a significant impact on the demand for our lumber products.

Industry

British Columbia is one of the world's leading forest products regions, with lumber shipments averaging approximately 14 billion board feet per year and pulp and paper shipments of approximately seven million tonnes per year, supported by an annual timber harvest averaging approximately 74 million cubic metres over the previous decade. Catastrophic wildfires in the southern interior of the Province in 2003 and 2004 as well as a continued expansion of the mountain pine beetle epidemic in the central and northern interior in 2005 have led to temporary increases in the AAC in these areas in order to salvage dead and dying timber. With higher interior AACs and harvest levels, there has been a corresponding increase in the availability of chips from interior sawmills for pulp production which has kept the value of pulp logs on the coast depressed.

British Columbia has two major forest regions, coastal and interior, which are differentiated by climate, terrain and forest type and have given rise to two distinctly different segments of the forest industry. Historically, just less than one-third of British Columbia's timber harvest has been from the coastal region. In contrast to the interior forests, the British Columbia coastal forests are distinguished by a wet maritime climate, rugged topography and a variety of high-value coastal forest species with highly productive growing sites. Over the past decade, the coastal timber harvest has declined as a result of the establishment of new parks and protected areas and AAC reductions to conform harvest levels to long-term sustained yields.

The forest products industry categorizes lumber into either hardwoods or softwoods. Softwoods such as hemlock, cedar, spruce, pine and fir are used primarily in construction due to their strength, light weight and ease of nailing. The forest industry also grades lumber into various classifications according to quality. The two broad categories within which all grades fall, based upon the absence or presence of defects and the grain of the wood, are upper grade lumber and commodity grade lumber, respectively. Upper grade lumber is a grade of lumber which is substantially clear of defects and is obtained primarily from mature timber in areas which have not been previously harvested.

Forest Resources

Timber Tenures

Approximately 95% of all forest resources in British Columbia are owned by the Province and administered by the Ministry of Forests. Subject to provincial legislation and related regulations, rights to harvest timber on such land may be granted on behalf of the Province by the Ministry of Forests in the form of timber tenures. Our timber tenures comprise TFLs, FLs and TLs. We undertake to manage the forest lands to which our timber tenures relate to produce an annual harvest in accordance with the terms of our licenses and the AAC volumes determined by the Ministry of Forests for each TFL and FL.

A TFL is a replaceable timber tenure that requires the licensee to manage a specified area of timberland on a sustained yield basis. TFLs are granted for 25-year terms and, subject to satisfactory performance of its obligations under the TFL agreement by the licensee, are replaced by the Minister of Forests every five to 10 years with a new TFL with a 25-year term. Prior to the acquisition of TFL 37, approximately three quarters of our total AAC is derived from our three TFLs: TFL Nos. 6, 19 and 25. TFL Nos. 6, 19 and 25, acquired from our Predecessor, were replaced in 2000, 2001 and 1999, respectively, for 25 year terms. We expect to have TFL No. 25 replaced in 2006, however, replacement is subject to the Province completing consultation with potentially affected First Nations. (See "*First Nations Land Claims*").

Other areas of the Province's timberlands which are not designated as TFLs are organized into timber supply areas ("TSAs"). FLs are issued within each TSA with the AAC being determined at the TSA level and the overall harvest for the TSA being allocated and 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 specific TSA. FLs generally have a term of 15 years and are replaceable every five to ten years with a new FL with a term of 15 years, subject to satisfactory performance by the licensee of its forest management obligations in the FL. While we have seven FLs, only three have allowable annual cuts in 2006 as a result of the Forestry Revitalization volume take backs. Two of these active FLs are located in the Mid Coast TSA. The third is located in the Strathcona TSA. All of the FLs were replaced in 1998 for 15 year terms.

Excluding the TLs acquired in connection with the acquisition of the Englewood Logging Division, we also hold and harvest timber from 143 TLs, covering an area of approximately 85,000 hectares. TLs are area-based tenures which, if external to TFLs, permit the licensee to harvest the area over a specified period of time but without any periodic limits. Nineteen of our TLs are situated outside of our TFLs while 124 are included within them. At the end of 2005, these TLs contained approximately 21 million m³ of mature timber.

TLs within a TFL are managed on an integrated basis with other government and private timberlands within the same TFL and remain part of the TFL after harvest. The terms of these TLs coincide with the terms of the TFLs in which they are incorporated. They are automatically extended when the TFL is replaced. The timing of harvesting from external TLs is subject to the practice guidelines of the Ministry of Forests, but is otherwise at our discretion. Those TLs which are outside of our TFLs expire at varying dates ranging from 2008 to 2016.

Negotiations to implement the FR Act volume and area takebacks have identified 39 TLs within TFLs and 8 TLs outside of TFLs that will see either full or partial reversion to the Crown (excluding the TLs acquired in connection with the Englewood Logging Division). The administrative details to effect the area takebacks are expected in 2006 for the 8 external TLs but may be delayed for one or more years for the internal TLs as they will be associated with adjustment to TFL boundaries. Another 4 TLs within TFL 25 are expected to be fully or partially reverted once the government establishes new Central and North Coast Protected Areas.

Our Predecessor's 1998 study of its TLs situated outside of TFLs indicated a feasible harvest schedule of approximately 100,000 m³ annually over the next 20 years. The Forestry Revitalization Plan ("FR Plan") take-back reduced the external TL merchantable volume by approximately 20%. The nominal AAC can be maintained at the previously forecast level or could be reduced to 80,000 m³. In 2004, legislation governing TL renewals was replaced. The Crown may now agree to a single extension to a TL term for no longer than three years. In 2005, eight expiring TLs were renewed until 2008. This change as well as the FR Plan take-backs will require us to re-evaluate our timetable to harvest this unregulated volume.

In late 2004 we applied to the Minister of Forests to have approximately 28,300 hectares of private land withdrawn from our three TFLs. We have been in negotiations with the Crown on what if any conditions may be applied to this withdrawal. If successful, we will consider the sale of some or all of the private timberlands on terms satisfactory to us.

Timber Harvest

The AACs for TFLs and TSAs are determined by the Chief Forester of the Province and are intended to reflect timber conditions, regional and local economic and social interests, and environmental considerations. In mid-2003, the annual and periodic timber harvest requirements were changed as a result of the enactment of the *Forestry Revitalization Amendment Act* (British Columbia). For major licenses, the volume of timber to be harvested over any five year cut control period, other than the final cut control period for a license, continues to be capped at 110% of the sum of the AACs for that period and 100% of the sum of the AACs for the final five year cut control period. However, there are no longer any annual cut controls nor any minimum harvesting requirement for any cut control period. Furthermore, the tenure holder has lost the ability to request the carry forward of unharvested volumes of timber into new cut control periods and any unharvested volume left at the end of a cut control period can be taken by the Crown and reallocated to other parties. This legislative change was applied retroactively to the beginning of 2003 as it pertained to annual cut controls and retroactively to the beginning of any active five year period as it applied to five year cut control limits.

Existing legislation requires the Chief Forester for British Columbia to review sustainable timber harvesting levels in each TSA and TFL in the Province every five years and to issue a "determination" relating to the same which may recommend reductions or increases in the AAC of the TSA or TFL. The Provincial Chief Forester was expected to determine a new AAC for our TFL 25 during the year. However, as discussed previously under "*Timber Tenures*" a replacement for TFL 25 did not occur in 2004 and an AAC determination for TFL 25 is now anticipated in 2006. In summary, no adjustments as a result of these reviews were made to any of our tenure AACs in 2005.

Under Part 13 of the *Forest Act* (British Columbia) ("Forest Act"), the Province can "designate" areas of Crown land and then suspend or vary permits, licenses and plans in force within the area. At the same time, the Province can reduce the AAC attributable to the designated area. If the Provincial Government determines that it is in the "public interest", Part 13 of the Forest Act enables it to specify Crown land as a "designated area" for a period of up to a maximum of 10 years. Once Crown land is specified as a designated area, all harvesting and permit rights are suspended or varied. When the term of the designated area expires, the harvesting and permit rights will be restored. Following the first stage of the Central Coast Land and Resource Management Plans ("LRMP") in 2001, the Province designated various areas in the plan area and reduced the AACs of various tenures. On July 1, 2004 the Central and North Coast Part 13 designations were cancelled and then replaced. However, the AAC reductions that accompanied the first Part 13 designations were not reintroduced and AACs for affected licenses returned to their previous levels. Through 2005 the Central Coast tenure AACs were maintained at their pre-Part 13 levels. However, the final round of FR Plan reductions to the FL A16847 AAC resulted in that tenure's AAC being reduced from 108,086 to 38,436 m³ at the end of 2005.

The Provincial Government met its announced goal of protecting 12% of the land area of the Province from development through the establishment of parks by the end of 2000. However, meeting this protection goal did not end land use planning processes that have continued through 2005. While the tenures contributing some 80% of our AAC have been dealt with under the regional Vancouver Island Summary Land Use Plan, the balance remained subject to other sub-regional land use processes.

The Central Coast LRMP submitted the final consensus report to the Provincial Government in May 2004. The North Coast LRMP concluded with a consensus report in February 2005. The Provincial Government has used the two reports to inform negotiations with Central and North Coast First Nations on the final LRMP outcomes. These government to government negotiations have continued into 2006 and are anticipated to conclude by mid-year. A preliminary announcement was made by the Provincial Government on February 7, 2006. See "*General Development of the Business – Recent Developments*".

Take Back Settlement

Retroactive to March 31, 2003, the Provincial Government as part of the FR Plan, reduced Crown harvesting rights by approximately 20% in exchange for compensation payable by the Crown. This take-back reduced our harvesting rights by 685,216 m³ from our TFLs and FLs and removed 827 hectares from our external TLs. For these take-backs, our tenures were grouped together so that our reduction came from our group of licenses as a whole rather than requiring 20% from each license.

In 2004, we completed negotiations with the Crown to establish where the take-back areas for pricing purposes would come from. A settlement framework agreement was reached on compensation to be paid to us and, in 2005, pursuant to terms of the settlement framework agreement, we received \$16.5 million in compensation for the loss of the 685,216 m³ of AAC and 827 hectares of timber licenses. Under this agreement, we also received an advance payment of \$5 million towards compensation for improvements we made to Crown land in the take-back areas.

For the balance of 2005, we continued to negotiate the actual compensation for improvements but have not reached an agreement yet. We did reach agreement on the take back areas within the external TLs but there was no resolution on where the take-back areas for First Nations and small tenures from within TFLs would be located.

Two Ministerial Orders, received at the end of 2004, put the AAC reductions into effect. The first Order reduced various tenure AACs by a cumulative 526,171 m³ effective on December 31, 2004 while the second reduced various tenure AACs by a further 159,045 m³ effective the end of the day on December 31, 2005. By the end of 2005, the FR Act had cumulatively reduced our TFL AACs by 292,455 m³ and our FL AACs by 392,761 m³. The considerable effort put into negotiations with the Crown resulted in much of the take-back volume coming from tenures not directly associated with forestry dependent communities.

Negotiations in 2006 will focus on finalizing the take-back areas for First Nations and small tenures and securing the final compensation payments for improvements.

In 2003, the Crown budgeted for two funds totalling \$275 million – \$200 million to compensate British Columbia forest companies for the reduction of harvesting rights and \$75 million to mitigate impacts on their displaced contractors as well as company and contractor employees. In early 2005 the Crown increased each fund by \$50 million in fiscal 2005/06. Some of these funds were accessed in 2005 to compensate some of our displaced workers and contractors.

Fibre Supply

Our fibre requirements are met with logs harvested from our timber tenures and private lands, logs purchased on the open market and until December 31, 2005, logs acquired under a saw log purchase agreement with a third party, log trading activities and logs acquired in exchange for wood chips. Our log trading department is responsible for ensuring an adequate supply of suitable logs for our plants. We engage in log trading activities to correct imbalances in the supply and demand in terms of the size, grade and species of logs. In addition, in order to ensure a continuing supply of timber, we maintain an active reforestation program.

All of our timber harvesting operations are located in the coastal region of British Columbia. Logging is conducted primarily on government timberlands allocated to us under our TFLs, and to a lesser extent, under our FLs and TLs. In addition, some logging takes place on private lands external to our TFLs. The timber covered by our timber tenures contains a substantial amount of presently harvestable mature timber stands that are located in areas that have never been commercially harvested. We believe that these stands are particularly valuable, as the substantial size of the trees should allow us to produce a high volume of upper grade lumber. Upper grade lumber is sold based upon appearance and is used in the manufacturing of doors, window frames, panelling, mouldings and siding.

The long-term species distribution of our timber resources is approximately 60% hemlock and balsam, and 35% cedar and cypress, with the balance made up of Sitka spruce, Douglas fir and various minor species. Production over the five year period through 2005 has closely mirrored this distribution with 45% hemlock, 16% balsam, 23% cedar, 5% cypress, 9% Douglas fir and 2% spruce harvested. This indicates that harvest plans are accessing the timber profile rather than targeting specific higher valued species.

The available cut, including the AAC of our TFLs and FLs, actual cut, log supply and log usage for each of the last three years are set out in the following table:

	Actual Cut ⁽¹⁾				Available Cut ⁽²⁾ as at December 31		
	Year Ended December 31, 2005	Period from July 28 to December 31, 2004	Period from January 1 to July 27, 2004	Year Ended December 31, 2003	2005	2004	2003
	Company	Company	Predecessor	Predecessor	Company	Company	Predecessor
<i>(thousands of cubic metres)</i>							
TFLs.....	2,393	1,240	1,932	2,266	2,723	2,917	2,847
FLs.....	435	304	351	261	753	976	929
Other lands ⁽³⁾	105	33	65	89	119	449	449
Total log production.....	<u>2,933</u>	<u>1,577</u>	<u>2,348</u>	<u>2,616</u>	<u>3,595</u>	<u>4,342</u>	<u>4,225</u>
Total logs purchased.....	<u>626</u>	<u>418</u>	<u>749</u>	<u>1,216</u>			
Total logs consumed ⁽⁴⁾	<u>3,028</u>	<u>1,373</u>	<u>2,006</u>	<u>3,506</u>			
Total logs sold.....	<u>763</u>	<u>527</u>	<u>670</u>	<u>721</u>			

- (1) The actual cut represents production and does not include residue volume, which contributes to the AAC total.
- (2) The available cut for the TFLs and FLs is the AAC determined by the Province's Chief Forester. At midnight December 31, 2005 the available AAC was further reduced on the TFLs and FLs by 31,000 and 128,000 m³ respectively as the final FR Plan take back from these tenures. External TL adjustments will occur in 2006. It is anticipated that an additional AAC reduction not related to the FR Act will be instituted once government to government negotiations on the Central and North Coast LRMPs are concluded in 2006.
- (3) 19,000 m³ of Available Cut is attributed to private managed forests lands outside of TFLs, 100,000 m³ to TLs outside of TFLs.
- (4) Includes logs consumed by the Port Alice pulp mill until May 11, 2004 when it was sold by our Predecessor.

In 2005 we had some 30 active logging and forestry operations on Vancouver Island as well as the South, Central and North Coast Mainland. Approximately 70% of our operations are on Vancouver Island. For historical and legal reasons, logging is conducted by a combination of both company operated and contractor operations. We plan and co ordinate all of the timber production from the various operating sites. As a result of the FR Plan take-back at the end of 2004 and 2005 there will be a reduction in the number of operations in 2006. (See "Forest Resources – Take-Back Settlement")

Saw logs are sorted according to size, grade and species and directed to our sawmills or in the event that the logs are not suitable for our manufacturing programs, are sold on the open market. Pulp logs harvested from our logging operations are

sold under long term contracts. We continue to operate a log merchandiser which since the closure of the Squamish Pulp mill has become a custom chipping operation producing chips for other pulp operators. Bundle booms and self-dumping log barges are used to transport logs by water to our manufacturing plants and to the Vancouver log market. A small percentage of logs are delivered to our manufacturing plants by truck.

Our sawmills have a total annual production capacity of approximately 650,000 units of wood chips. These chips constituted the primary source of the fibre for the Squamish pulp prior to its closure on January 26, 2005. Since that date, residual chips from our manufacturing operations are being sold under long term fibre supply agreement. We also trade chips or log volumes with third parties to secure preferred fibre or for cost benefit. Wood residue produced by the sawmills and the log merchandiser, principally sawdust and bark, is either used as a fibre supply for specialty pulp operations (some of the sawdust) or as hog fuel which is sold to other pulp mills.

The wood chip supply and usage for each of the last three years from our operations are set out in the following table:

	Year ended December 31, 2005	Period from July 28 to December 31, 2004	Period from January 1 to July 27, 2004	Year Ended December 31, 2003
(thousands of units)	Company	Company	Predecessor	Predecessor
Wood Chips produced.....	664	304	439	760
Wood Chips purchased.....	377	194	147	240
Total Wood Chips consumed	752	361	371	682
Total Wood Chips sold.....	306	142	193	307

Stumpage Charges

Stumpage is the fee that the Provincial Government charges forest companies to harvest timber from Crown land as well as private timber harvested on the Province's land (TL). Prior to February 29, 2004 the Comparative Value Pricing ("CVP") system determined the amount of stumpage to be paid and was based on a revenue target set by the Provincial Government and adjusted on a periodic basis.

On February 29, 2004, CVP was replaced by the Coast Market Pricing System ("MPS"). All CVP stumpage rates (as at January 1, 2004) were frozen as of February 28, 2004, and stumpage billing for active cutting permits was continued at those rates while cutting permits issued after this date will be assessed stumpage under the Coast MPS. However, for cutting permits active on February 28, 2004, licensees were able to select whether to continue using CVP or move to their CVP permits to the Coast MPS. Operations made this selection on the basis of which rate would be most advantageous. The transition also allowed for permits to be surrendered and this opportunity was used to retire permits which no longer were economic. However, where a surrendered permit had been activated but not completed, the licensee would have been billed for this un-harvested remaining volume. A one shot "amnesty" program allowed licensees to surrender fully intact cutblocks without penalty on or before May 31, 2005.

The following table illustrates the relationship of stumpage expenses relative to the total log production for each of the last three years:

	Year Ended December 31, 2005	Period from July 28 to December 31, 2004	Period from January 1 to July 27, 2004	Years Ended December 31, 2003
(thousands)	Company	Company	Predecessor	Predecessor
Log production (cubic metres)	2,880	1,579	2,348	2,616
Stumpage	\$26,511	\$23,169	\$35,987	\$53,737

Forest Management

We manage our forest tenures and privately owned forest lands according to Sustainable Forestry Management Principles, which include a commitment to meeting or exceeding government requirements. As part of the rights and responsibilities that accompany the Crown tenures held by us, staff carry out or supervise pre-harvest planning, subsequent road building and harvesting operations and the follow-up silviculture treatments to establish free-growing second growth stands.

Pre-harvest planning includes a wide spectrum of activities from the collection of inventory and assessment data to the development of higher level Management Plans for TFLs and Forest Development Plans for specific planning areas within TFLs or FLs. These plans take a broad range of timber and non-timber factors into account, including but not limited to: wildlife, fisheries, water quality, soil sensitivity, terrain stability, visual quality, biodiversity, archaeological sites and cultural features, cave and karst features, timber species distribution and value. These higher level plans provide direction for the development of site specific plans and lead to the applications for specific road building and harvesting permits.

Following harvest, we reforest all disturbed areas and conduct follow-up surveys and silvicultural treatments to ensure that these harvested areas meet "free-growing" requirements within specified timelines. Once free-growing, young stands are left to develop without further attention into second growth forests ready for subsequent harvest. All of these "basic" silviculture requirements are carried out at our expense. In 2005, we spent \$7.2 million in meeting basic silviculture obligations.

Our tenures are managed by a staff of registered professional foresters and engineers who are involved in planning and inventory, road and bridge development, harvesting, silviculture and forest health and protection programs. We operate the Saanich Forestry Centre, which includes a 3 million seedling nursery and a tree seed orchard that produces select seed for reforestation.

In April 2002, the Provincial Government replaced Forest Renewal B.C. with the Forest Investment Account ("FIA"), administered by PricewaterhouseCoopers. FIA is funded by an appropriation approved by the Provincial Government, rather than a stumpage levy, and authorizes the Minister of Forests to provide funding for certain forest management activities. Specific amounts are dedicated to provincial level programs, while other amounts are allocated to tenure holders. Together with our Predecessor, we accessed \$1.2 million from FIA to carry out a range of projects in 2005.

Solid Wood Facilities

We own five sawmills, a log merchandiser and a value-added lumber remanufacturing plant. The Saltair sawmill is on indefinite curtailment although we continue to operate its planer and drying facilities. Four of the five sawmills use some computer controlled equipment to optimize the lumber recovery at the mill. Our high quality timber supply (western red cedar, douglas fir, hemlock, balsam, spruce and yellow cedar) and the particular design of our sawmills enable us to produce specialty products such as upper grade lumber, lumber with long lengths (over 20 feet) and wide widths (over 10 inches), lumber produced from western red cedar, and baby squares and beams used in traditional Japanese housing. These products command premium prices compared to commodity construction grades, such as SPF 2x4 lumber. Much of the softwood timber in North America is not capable of producing substantial quantities of these specialty products, as the trees are too small.

All of our sawmills are located on Vancouver Island. Our Duke Point and Nanaimo sawmills are both located in Nanaimo. Our Ladysmith and Saltair sawmills are located on adjacent properties in Ladysmith. Our other sawmill on Vancouver Island is located at Cowichan Bay. All of our sawmills on Vancouver Island have adjacent water lots which are leased from the Province and have barge loading facilities to handle water-borne shipments of sawmill products. The Duke Point, Cowichan Bay, Ladysmith and Saltair sawmills are situated on land we own. The Nanaimo sawmill is situated on an 8.5 hectare site, which includes 6.1 hectares that we own and 2.4 hectares leased from the Nanaimo Port Authority.

The Duke Point and Nanaimo sawmills process large diameter logs of mixed species, while the Cowichan Bay, Ladysmith and Saltair sawmills process small diameter logs. All of our sawmills can handle mixed species. The Nanaimo sawmill cuts predominantly Douglas fir and hemlock logs and produces a wide range of high-value specialty lumber products primarily for the Japanese market. The Saltair sawmill can cut for both the Japanese and North American markets and can process western red cedar. The Saltair and Nanaimo sawmills have received authorization to stamp their lumber as having met the quality control requirements of the Japanese Agricultural Standard, indicating that the lumber meets rigorous Japanese structural grading rules. The Saltair sawmill has three natural gas powered kilns that have been refurbished and are estimated to be capable of drying 70-100 million board feet of dimensional lumber per year.

Until October 28, 2005, we operated a sixth sawmill, the Silvertree-Vancouver sawmill, located in Marpole, in suburban Vancouver which has now been closed, the buildings demolished and the site sold with closing subject to environmental

remediation by the Company. It processed cedar logs and large diameter hemlock. The sawmill was located on land which fronts the Fraser River and was owned by us. The mill had barge loading facilities to handle water-borne shipments of sawmill products.

The current annual lumber production capacity and actual lumber production for each of our sawmills for each of the last three years are set out in the following table:

Sawmills	Capacity ⁽¹⁾ (MMfbm)	Year Ended December 31, 2005	Period from July 28 to December 31, 2004	Period from January 1 to July 27, 2004	Years Ended December 31 2003
		Company	Company	Predecessor	Predecessor
Cowichan Bay	215	126	56	79	122
Duke Point	225	135	52	63	86
Ladysmith	170	90	29	57	90
Nanaimo	213	130	60	75	128
Saltair ⁽²⁾	215	104	50	73	120
Silvertree ⁽³⁾	n/a	63	42	42	69
	1,038	648	289	389	615

(1) As at December 31, 2005 based on three shifts and 250 operating days. Normally operating two shifts.

(2) Sawmilling operations at Saltair were indefinitely suspended on October 28, 2005.

(3) Operations at Silvertree were closed on October 28, 2005.

Our log merchandiser is located on land we own at Nanaimo on Vancouver Island. The water lots necessary to operate this plant are leased from the Province and the Nanaimo Port Authority.

Our value-added lumber remanufacturing plant dries, cuts, resaws and trims lumber into various grades and dimensions, which are used primarily in the manufacturing of mouldings, panelling and frames for doors and windows. The plant is located in Chemainus and is situated on land owned by us. It is comprised of 10 kilns, which are utilized to dry lumber produced at our sawmills, a planer mill, and resawing, sorting and trimming facilities. The plant has an annual drying and production capacity of approximately 80 million board feet of lumber and in 2005 processed approximately 34 million board feet of lumber.

See "Business of the Company – Environment" for a discussion of environmental matters.

Each of our sawmills, our log merchandiser and value-added lumber remanufacturing plant are subject to a first priority charge under the BBLF Facilities. See "Capital and Debt Structure – Senior Secured Facilities" for a discussion of encumbrances on our assets.

Discontinued Pulp Mill Operations

We own and until January 26, 2006, operated an NBSK pulp mill on the mainland of British Columbia near Squamish. The Squamish mill is located on the coast with easy access to water transportation approximately 65 kilometres north of Vancouver. The mill had a high quality water supply, access to a natural gas pipeline, close proximity to sources of raw materials, major storage and shipping terminals, and access via ferry to Squamish and then by road to Vancouver. The Squamish pulp mill is situated on land we own. The water lot that was necessary to operate the mill is leased from the Province. We are currently evaluating alternative uses for the site.

The actual pulp production for the Squamish pulp for each of the last three years are set out in the following table:

	Capacity ADMT	Year Ended December 31, 2005	Period from July 28 to December 31, 2004	Period from January 1 to July 27, 2004	Years Ended December 31 2003
		Company	Company	Predecessor	Predecessor
Pulp Production (thousands of ADMT)	275 ⁽¹⁾	279	119	147	253

(1) Annual production capacity as at December 31, 2005 based on 24 hours per day and 344 days per year.

See "*Item 4. – Business of the Company – Environment*" for a discussion of environmental matters.

Our pulp mill is subject to a first priority charge under the BBLF Facilities. See "*Capital and Debt Structure – Senior Secured Facilities*" for a discussion of encumbrances on our assets.

Sales, Marketing and Distribution

Our lumber products are marketed and sold in North America by a separate sales and marketing division that primarily sells our lumber products directly to wholesale lumber distributors. Sales to the Japanese market is performed by our Japanese sales group based in Vancouver who sell direct to the Japanese trading houses. European lumber sales are made via agents. Direct liaison with the consumers of our lumber products provides us with the ability to react quickly to changes in market conditions and customer requirements and achieve lower selling costs. We adjust our sawmill processing programs in order to customize products to meet the specific requirements of our customers or change in market conditions.

Most of our lumber products are sold green (not kiln-dried or air-dried) however, certain specialty products require kiln-drying. We offer a comprehensive line of traditional components for the Japanese market. Our focus in Europe is kiln-dried, high-grade specialty products used predominantly in Germany, Italy and the United Kingdom.

The distribution of the Company's sales by geographic area and by product line for each of the last three years is set out in the following table:

Towards the end of 2005 the Japanese Government started a process of providing local forest owners with incentives to support local sawmills with more logs at competitive prices. The government has also encouraged large users to give favorable consideration to local species. This has had a short term impact on certain imported species and products which compete directly with the locally manufactured products.

	Year Ended December 31, 2005	Period from July 28 to December 31, 2004	Period from January 1 to July 27, 2004	Years Ended December 31, 2003
	Company	Company	Predecessor ⁽¹⁾	Predecessor ⁽¹⁾
<i>(thousands of dollars)</i>			Restated	Restated
<i>Sales by geographic area</i>				
Canada.....	\$160,040	\$86,860	\$122,563	\$152,675
U.S.....	252,482	110,753	142,609	216,294
Asia.....	177,625	94,509	112,917	170,287
Europe.....	64,381	29,299	46,775	73,184
Other.....	12,628	2,685	10,962	11,660
	<u>\$666,796</u>	<u>\$324,106</u>	<u>\$435,826</u>	<u>\$624,100</u>
<i>Sales by product line</i>				
Lumber.....	\$384,268	\$173,344	\$238,724	\$331,704
Logs.....	91,889	59,502	81,255	106,480
Sawmill by-products.....	23,669	10,894	14,576	22,000
	<u>499,826</u>	<u>243,740</u>	<u>334,555</u>	<u>460,184</u>
Pulp ⁽¹⁾	166,970	80,366	101,271	163,916
	<u>\$666,796</u>	<u>\$324,106</u>	<u>\$435,826</u>	<u>\$624,100</u>
<i>Solid Wood Segment</i>				
Lumber				
Canada.....	\$44,482	\$16,455	\$26,731	\$24,190
U.S.....	242,429	105,885	137,338	206,023
Asia.....	65,763	39,734	53,654	79,296
Europe.....	22,606	8,898	12,420	18,848
Other.....	8,988	2,372	8,581	3,347
	<u>384,268</u>	<u>173,344</u>	<u>238,724</u>	<u>331,704</u>
Logs				
Canada.....	91,889	59,502	81,255	106,480
Sawmill by-products				
Canada.....	23,669	10,894	14,576	22,000
Total Solid Wood Segment.....	<u>\$499,826</u>	<u>\$243,740</u>	<u>\$334,555</u>	<u>\$460,184</u>
<i>Pulp Segment⁽¹⁾⁽²⁾</i>				
Canada.....	\$0	\$9	\$1	\$5
U.S.....	10,053	4,868	5,271	10,270
Asia.....	111,503	54,775	59,263	90,991
Europe.....	41,775	20,401	34,355	54,337
Other.....	3,639	313	2,381	8,313
Total Pulp Segment.....	<u>\$166,970</u>	<u>\$80,366</u>	<u>\$101,271</u>	<u>\$163,916</u>
Total Solid Wood Segment and Pulp Segment	<u>\$666,796</u>	<u>\$324,106</u>	<u>\$435,826</u>	<u>\$624,100</u>

(1) Pulp sales of our Predecessor exclude sales from the Port Alice pulp mill which was sold by our Predecessor on May 11, 2004 to PASCI.

(2) Our Squamish pulp operations ceased production in January 26, 2006.

Lumber from our sawmills is delivered to market by ocean-going vessel and barge, and by rail and truck. Pulp from the Squamish pulp mill was shipped by ocean-going vessel and barge.

In a normal operating year, there is some seasonality to our operations with higher activity in the second and third quarters as construction activity, particularly in the US tends to be higher. Logging activity may also vary depending on weather conditions due to snow and ice in the winter and the threat of forest fires in the summer.

Lumber shipments and sales into North American lumber markets are generally higher during the period from mid-March to mid-September of each year, coinciding with the preferred weather for housing construction. Other export markets for the solid wood segment do not have a pronounced seasonal pattern.

Competition

Lumber is largely a commodity and the market is cyclical. We compete on both a domestic and international level with a large number of forest products firms, ranging from very large integrated firms to smaller specialty firms. Many of these competitors notably from Europe have a strong pulp focus which is reflected in their marketing strategy. We also compete indirectly with firms that manufacture substitutes for solid wood products, including non-wood and engineered wood products. The market for lumber is highly competitive and sensitive to cyclical changes in industry capacity and the economy, both domestically and internationally. Changes in the level of competition, industry capacity and the global economy have a significant impact on our selling prices and overall profitability. Our competitive position is influenced by the availability, quality and cost of fibre, energy and labour, and our plant efficiencies and productivity in relation to our competitors. Changes in the political and social environment in which we operate may also impact on ability to compete.

A number of forest policy changes have been announced and implemented by the Provincial Government. Greater ability to acquire new tenure has been balanced by a requirement for a "competition" test to ensure that markets for logs or chips are not detrimentally affected. The regulation to determine the competition test has not been prescribed. In the interim, the Provincial Government is determining whether competition is unduly restrictive for this purpose on a case by case basis. Hence, the impact cannot be determined at this point in time.

Our competitive position has also been affected by countervailing duties and antidumping rates imposed by the government of the United States on shipments of softwood lumber into the United States from Canada. See "*Business of the Company – Softwood Lumber Dispute*".

Environment

Environmental Policy

We are committed to the protection of the environment and work with government, local communities, First Nations, environmental groups and other interested stakeholders to identify and address issues of environmental concern in all aspects of our business. Our operations are subject to a wide array of federal, provincial and local environmental legislation regulating water, land and air discharges and solid and hazardous waste management, disposal, transportation and remediation. To oversee and co-ordinate company-wide efforts to comply with such legislation, we have established an Environmental, Health and Safety Committee of the Board of Directors and implemented a reporting system that is designed to monitor environmental compliance with regulatory requirements, identify environmental issues and communicate them to all levels of management and operations. In conducting our operations, we attempt to minimize environmental impact through sound forestry and environmental management practices that meet or exceed government standards and adhere to an environmental policy based on the following:

- Assessing and evaluating environmental risk on an ongoing basis in order to maintain meaningful environmental objectives and targets and effective operational controls;
- Allocating sufficient resources to ensure continuing compliance with environmental responsibilities;
- Meeting or surpassing all applicable legal requirements;
- Establishing auditing and reporting procedures to monitor environmental performance, continually improve environmental practices and prevent pollution; and
- Communicating this policy and our environmental performance to the public as well as our staff, employees and contractors.

Environmental Management

We have established an Environmental Management System ("EMS") for our timberlands and sawmills. Through third party audits by the Quality Management Institute, as well as internal audits, we have confirmed that the EMS remains in conformance with the International Organization for Standardization ("ISO") 14001 standard. These audits provide important feedback to senior management to ensure that staff, employees and contractors conduct their activities in compliance with the legislation and regulations relevant to the forest products industry. We use documents such as Standard Operating Procedures and Emergency Response Plans, and processes such as Management Review and Corrective/Preventative Action Requests, as a means through which to achieve adherence to our environmental policies.

As of the date hereof, we believe that our solid wood segment is in substantial compliance with all applicable environmental legislation.

Until its closure, we believe that environmental performance at the Squamish pulp mill was substantially in compliance with the requirements of applicable environmental legislation.

The new *Contaminated Sites Regulations* (British Columbia) came into effect in the fall of 2004. In general, the new legislation will simplify the site remediation process should it be required.

Forest certification is a worldwide initiative that provides independent third party assessments of sustainable forest management practices by forest products producers. It is voluntary and involves a systematic verification and assessment process against a set of criteria and elements. The most broadly accepted Canadian forest values generated to date are embodied in the Canadian Council of Forest Ministers ("CCFM") Sustainable Forest Management ("SFM") criteria and elements. The CCFM SFM criteria and elements are fully consistent with those of the Montréal and Helsinki processes, which are both recognized by governments around the world.

The requirements of the Canadian Standards Association ("CSA") Z809 Standard are defined by the CCFM SFM criteria. In this standard, use of the CCFM SFM criteria and elements as a framework for value identification provides vital links between local level SFM and national and provincial-scale forest policy, as well as a strong measure of consistency in identification of local forest values across Canada.

We undertook a review of our complementary CSA Chain of Custody ("COC") certification and based on the review small modifications were completed early 2005. The COC allows our Duke Point Sawmill, Chemainus Value Added Division, and, until October 28, 2005, the Silvertree-Vancouver Division Sawmill to apply the CSA product label and provides our customers with comfort that these products originate from sustainable managed forests.

Positioning our operations to address customer needs will drive future certification initiatives. Management systems and COC documents continue to be developed for the remaining facilities on an as needed basis. In January 2004 the Squamish pulp mill achieved the Nordic Swan eco-label standard.

Certifications obtained for our timberlands, solid wood operations and pulp mill are summarized as follows:

Timberlands

- ISO 14001 Environmental Management System Certification of all timberlands (April 2000)
- CSA Z809 2002 Sustainable Forest Management Certification of North Vancouver Island Region (November 2001)
- CSA plus 1163 COC Certification for North Vancouver Island Region (November 2001)

Solid Wood Manufacturing

- CSA Plus 1163 COC Certification for Duke Point (January 2002) and Silvertree-Vancouver Division (February 2003).

Value-Added Facility

- CSA Plus 1163 COC Certification (February 2002)
- ISO 14001 Environmental Certification (February 2002)

Pulp Mill - Squamish

- ISO 9001-2000 Quality Assurance Certification (1993)
- ISO 14001 Environmental Management System Certification (May 1999)

In addition to regular environmental programs, we have been active with other non-core business related environmental initiatives. Five salmon hatcheries supported in whole or in part by us released more than 800,000 salmon fry in 2004. We also actively participate in the BC Hydro Power Smart Program.

In 2004 the final sections of the *Species at Risk Act* (Canada) were brought into force. This particular statute could affect and possibly redefine future forest practices in British Columbia should the Provincial Government fail to act to the Federal Government's satisfaction. At the end of 2005 a number of environmental groups used the Act to initiate a court challenge to provincial wildlife management policy, demanding that the federal government intervene to protect the spotted owl in British Columbia. This challenge is being watched closely. If successful, it may become the template for other challenges.

First Nations Land Claims

First Nations in British Columbia have made claims of rights and title to substantial portions of land in the Province including areas where our timber tenures and operations are situated, creating uncertainty as to the status of competing property rights. The Supreme Court of Canada has held that aboriginal groups may have a spectrum of aboriginal rights in lands that have been traditionally used or occupied by their ancestors; however, such rights or title are not absolute and may be infringed by government in furtherance of a legislative objective, including forestry, subject to meeting a justification test. The effect on any particular lands will not be determinable until the exact nature of historical use, occupancy and rights in any particular piece of property have been clarified.

First Nations are seeking compensation from governments with respect to these claims, and the effect of these claims on timber tenure rights, including our timber tenures, cannot be estimated at this time. The Federal Government and Provincial Government have been seeking to negotiate settlements with aboriginal groups throughout British Columbia in order to resolve these claims. In 1992, the Federal Government and Provincial Government instituted a tripartite treaty negotiation process with the First Nations Summit, representing the majority of the First Nations in British Columbia. Any settlements that may result from these negotiations may involve a combination of cash, resources, grants of conditional rights to gather food on public lands, and some rights of self-government. The effect of such a settlement on our timber tenures or the amounts of compensation that we would receive for any taking from our tenures as a result of this process, if any, cannot be estimated at this time.

Some groups have also commenced litigation to pursue their claims. Subsequent to our Predecessor filing under the CCAA, the Quatsino First Nation ("Quatsino") of the Kwakiutl Nation, commenced an action against one of Doman's subsidiaries, and a number of other forest companies and claiming in respect of the subsidiary declaratory relief as to aboriginal title as to certain licensed tenures of the subsidiary and general unspecified damages and compensation for use of forest lands and trees. All claims of the Quatsino capable of compromise under the CCAA were valued at \$1.00 and they received dividends on that amount under the Plan filed under the CCAA. However, the aboriginal title claims of the Quatsino were not affected by the Plan filed under the CCAA.

In a landmark decision in late 2004, the Supreme Court of Canada determined that there is a duty to consult with and, where appropriate, accommodate First Nations where government decisions may impact on claimed, but as yet unproven, aboriginal rights or title. This decision also provided much needed clarification of the duties of consultation and accommodation. The Court found that third parties are not responsible for consultation or accommodation of aboriginal interests and that this responsibility lies with government. Subsequent decisions such as the Supreme Court of Canada's decisions in *Bernard & Marshall* and *Mikisew* and the *Hupacasath* decision of the British Columbia Supreme Court have continued to define the relationship between the Crown and First Nations.

Current Provincial Government policy requires that forest management and operating plans take into account and not infringe on aboriginal rights and title, proven or unproven, and provide for consultation with First Nations. This policy is reflected in the terms of our timber tenures, which provide that the Ministry of Forests may refuse to issue cutting permits in respect of a timber tenure if it is determined that the forestry operation would interfere with aboriginal rights and title. First Nations have, at times, sought to restrict the Provincial Government from granting or renewing forest tenures and other operating authorizations without their consent if these decisions could affect lands claimed by them.

In addition, the Provincial Government is also negotiating Forest and Range Agreements with certain First Nations. These agreements are intended to provide workable accommodation of aboriginal interest that may be impacted by certain forestry decisions until such time as those interests are settled through the treaty process. To date, the Provincial Government has entered into agreements with over 100 various First Nations throughout the Province, including a number with First Nations whose traditional territories overlap some of our operating areas.

As a result of the 2004 Supreme Court of Canada decision, industry does not have an obligation to consult or accommodate aboriginal interests, however, industry has a considerable interest in ensuring that Government conducts its consultation properly. We believe that the fostering of mutually beneficial business relationships with First Nations will facilitate these consultations and accommodation processes. We are aware of over 30 First Nations or First Nation Associations which have interests in the area within our tenures. Our Predecessor developed and we continue to develop working relationships

with many First Nations. We have timber harvesting, silviculture, planning and other capacity building arrangements with many First Nations.

In March 2005, the Province began meetings with representatives of the First Nations Summit, the Union of B.C. Indian Chiefs and the B.C. Assembly of First Nations to develop new approaches for consultation and accommodation and a vision for a "New Relationship" to deal with Aboriginal concerns. A five-page document, outlining the vision and principles of the New Relationship, was developed as a result of these meetings. It broaches the topic of a new government to government relationship with First Nations, including new processes and structures for coordination, and working together to make decisions about the use of land and resources. The Province also committed to invest \$100 million in a one-time fund to help Aboriginal communities build appropriate capacity to provide effective input and participate in the management of lands, resources and social programs.

As the jurisprudence and government policy defining aboriginal rights and title and government policy on consultation and accommodation will continue to evolve, it is not possible to predict the potential impacts on our tenures and forest practices. We remain committed to working with both the Provincial Government and First Nations as the New Relationship is developed.

Capital Expenditures

The following table summarizes capital expenditures for each of the last three years:

	Three Years Ended December 31, 2005	Year Ended December 31, 2005	Period from July 28 to December 31, 2004	Period from January 1 to July 27, 2004	Years Ended December 31, 2003
	Pro Forma ^{(1) (2)}	Company	Company	Predecessor ⁽²⁾	Predecessor ⁽²⁾
<i>(millions of dollars)</i>					
Solid Wood Segment ⁽³⁾	\$81.5	\$ 17.9	\$ 11.6	\$ 23.6	\$ 28.4
Pulp Segment	2.0	0.4	—	1.0	0.6
	<u>\$83.5</u>	<u>\$ 18.3</u>	<u>\$ 11.6</u>	<u>\$ 24.6</u>	<u>\$ 29.0</u>

- (1) Combined expenditure by the Company and the Predecessor.
- (2) Expenditure by the Predecessor excludes expenditures for Port Alice operations.
- (3) On July 28, 2004 we adopted a new accounting policy which requires that we expense the cost of spur roads in the period the work is incurred. The Predecessor capitalized and amortized spur roads. See our Management's Discussions and Analysis ("MD&A") for the year ended December 31, 2005 for further details of the accounting policy change.

Softwood Lumber Dispute

On March 21, 2002 and further adjusted on April 25, 2002, the USDOC issued its final determination in the countervailing and antidumping investigations. The USDOC's final determination in the countervailing investigation resulted in a duty rate of 18.79%. The USDOC's final determination in the antidumping investigation resulted in company specific duty rates ranging from 2.18% to 12.44% on the six companies investigated and an all other rate of 8.43% for all other companies including this Company.

On May 16, 2002, the U.S. International Trade Commission ("USITC") published its final written determination on injury and stated that Canadian softwood lumber threatens material injury to the U.S. industry. As a result, effective from May 22, 2002, cash deposits were required for shipments at the rates determined by the USDOC. All prior bonds or cash deposits posted prior to May 22, 2002 and since inception of this dispute on April 2, 2001 were refunded.

Effective December 20, 2004, the USDOC implemented new deposit rates for shipments made after this date. The USDOC reduced the countervailing duty deposit rate to 17.18% from 18.79% and the all others antidumping deposit rate to 3.78% from 8.43%. These new deposit rates are based on the USDOC's final rate determinations for the first administrative review period (May 22, 2002 to March 31, 2003 for the countervailing duty case and May 22, 2002 to April 30, 2003 for the antidumping duty case). Effective February 24, 2005, the USDOC further reduced the countervailing deposit rate to 16.37% to adjust for ministerial errors.

On April 26, 2005, we were notified by the USDOC that we were not entitled to use the reduced "all other rate" for antidumping duty deposits of 3.78% unless we filed a changed circumstances review request with the USDOC to confirm that we were the successor in interest to the Predecessor. We subsequently filed an application for an expedited changed circumstances review and received a positive ruling from the USDOC confirming we were entitled to use the "all others

rate" of 3.78% effective from August 19, 2005. For the period from April 26, 2005 to August 19, 2005 we posted antidumping deposits at the higher rate of 11.54%.

Effective December 12, 2005, the USDOC implemented new deposit rates based on its second administrative review period (April 1, 2003 to March 31, 2004 for the countervailing duty case; and May 1, 2003 to April 30, 2004 for the antidumping duty case) and reduced the CVD deposit rate to 8.70% and the all others antidumping rate to 2.11%. At December 31, 2005, our combined deposit rate is 10.81% (2004 - 21.21%). Effective January 23, 2006, the USDOC further amended the antidumping rate to 2.10% reducing the combined duty deposit rate for the Company to 10.80%.

We have expensed \$36.4 million in duties for the year ended December 31, 2005 (\$21.1 million for the period July 28, 2004 to December 31, 2004; \$24.0 million for the period from January 1, 2004 to July 27, 2004 for the Predecessor; year ended December 31, 2003 for the Predecessor - \$36.1 million). We and the Predecessor have paid U.S.\$104.2 million in cash deposits since May 22, 2002.

During the fourth quarter, we were notified that we had been selected as a mandatory respondent in the antidumping duty third administrative review of certain softwood lumber products from Canada. We were selected, along with seven other companies, under the USDOC's new "probability proportional to size" sampling methodology. The review covers deposits at the "all others" rate of 2.11% on the value of our lumber shipments to the United States. Following the third review, we will post antidumping duties at a "company specific" rate that will be determined for us as a result of this review. We do not expect to receive the final results of the USDOC third review until December 2006, consistent with the timing of the USDOC second administrative review determinations announced in 2005.

We and other Canadian forest product companies, the Federal Government and Canadian provincial governments ("Canadian Interests") categorically deny the U.S. allegations and strongly disagree with the final countervailing and antidumping determinations made by the USITC and USDOC. Canadian Interests continue to pursue appeals of the final countervailing and dumping determinations with the appropriate courts, North American Free Trade Agreement ("NAFTA") panels and the World Trade Organization ("WTO").

NAFTA and WTO panels have issued several rulings with respect to the countervailing and antidumping investigations. The USDOC has responded to these rulings and modified its methodology and calculations in evaluating and calculating subsidy and dumping rates. However, primarily in the countervailing case, with each response to NAFTA panel rulings, the USDOC's methodology changes have resulted in substantive changes to the duty rates, both up and down, making it difficult to accurately estimate, the final rates after all appeals will be complete. As a result, the Company has not recorded any receivable for prior periods related to the change in the cash deposit rate applicable to new shipments.

A NAFTA Panel, in reviewing the "threat of injury" determination made by the USITC, has ruled that the USITC has not been able to provide the NAFTA Panel with substantive evidence to support the USITC ruling of "threat of injury". The NAFTA Panel requested that the USITC reverse its ruling on "threat of injury" with which the USITC reluctantly complied. US interests appealed this ruling to an Extraordinary Challenge Committee ("ECC"). On August 10, 2005 the ECC unanimously dismissed the U.S. Extraordinary Challenge in its entirety. The determination by the ECC could result in the termination of the duty cases and the refund of duties, with interest. However, the U.S. Coalition for Fair Lumber Imports announced plans to initiate a constitutional challenge of the entire NAFTA dispute settlement system as a result of the ECC ruling. In addition, the U.S. administration takes the position that an ITC decision, issued on November 24, 2004, to bring the U.S. into compliance with an earlier adverse WTO decision, supersedes the September 10, 2004, ITC decision, thereby mooting the NAFTA appeals and ECC decision. The Federal Government and other Canadian parties have appealed the U.S. position to the U.S. Court of International Trade.

On October 5, 2005 the NAFTA Panel on countervailing duty ("CVD") issued its decision on the USDOC's fourth remand determination which had resulted in a calculated CVD rate of 1.21 percent. In a unanimous decision for Canada, the Panel overturned the USDOC's last decision. The USDOC was ordered to comply with the remand and on November 22, 2005 the USDOC issued a de minimis finding which should mean that the CVD duty must be revoked entirely. Both sides appealed to the Panel (the Canadian side for a declaration that the CVD case must be terminated and all CVD deposits refunded). On March 17, 2006 the NAFTA Panel unanimously affirmed the USDOC de minimis subsidy finding, but declined to rule on whether the countervailing duty order should be revoked retroactively or only prospectively until the USDOC rules on the issue. The NAFTA Panel decision can be appealed to an ECC. The deadline for making an Extraordinary Challenge will be 31 days after a Notice of Final Panel Action.

The final amount of countervailing and antidumping duties that may be assessed on our Canadian softwood lumber exports to the U.S. cannot be determined at this time and will depend on appeals of the final determinations to any reviewing courts, NAFTA or WTO panels. Notwithstanding the final rates established in the investigations, the final liability for the

assessment of countervailing and antidumping duties will not be determined until each annual administrative review process is complete, including appeals.

Human Resources

As of December 31, 2005, we had 1,803 employees (of which 1,460 are hourly paid workers). The majority of our hourly paid workers in our solid wood segment are represented by the IWA Council of the United Steel Workers Union. We are a member of Forest Industrial Relations Limited, which represents forestry companies in the coastal region of the Province in their negotiations with the IWA Council. In May 2004, a new collective agreement was implemented. The agreement expires on June 14, 2007.

Our hourly workers in the pulp segment were represented by the PPWC and subject to a five year collective agreement with the PPWC which was due to expire on April 30, 2008. With the closure of the operation, all matters related to Section 54 (Union Adjustment Process) of the Labour Relations Act is currently underway, and as of the date hereof has not been finalized. In addition, there are certain contractual items under discussion which may proceed to arbitration and/or the Labour Relations Board for final determination.

In our logging operations approximately 50% of the harvesting operations is performed by contractors. The majority of the contractors have replaceable contracts under the *Timber Harvesting Contract and Subcontract Regulation* (British Columbia).

Research and Development

Silviculture and tree improvement research is conducted primarily by our employees at our Saanich Forestry Centre on Vancouver Island and at our Port McNeill forest operations. The Centre is located north of Victoria, British Columbia and was founded in 1964. It has seed orchards, a seedling nursery with an annual capacity of approximately 3 million seedlings, and a laboratory that provides technical support to maintain seed and seedling quality. The Centre provides us with the ability to select and breed trees with superior growth and form that should improve the quality and quantity of timber produced over time. The Centre's nine seed orchards occupy 15 hectares and produce Douglas fir, western hemlock, western red cedar and Sitka spruce seed with improved properties. Yellow cedar hedges are also maintained for the production of improved cutting material. The nursery supplies our requirements for most species of seedlings. We spent approximately \$327,000 on growth and yield studies, tree improvement and silviculture research in 2005.

Our Squamish pulp mill had in-house laboratories and testing facilities for quality control and performance improvement. We also used the services and technical expertise of independent laboratories.

Our logging and sawmilling operations also investigate new equipment and methods to improve operational efficiencies. We are a member of the Forest Engineering Research Institute of Canada which conducts research into forestry activities related to the harvesting and transportation of wood and the growing of trees.

RISK FACTORS

The following risks and uncertainties may have a material adverse effect on our operations, including after the proposed Acquisition, the operations of Cascadia.

Substantial Leverage and Ability to Service Indebtedness

As at December 31, 2005, we had approximately \$319.3 million of indebtedness outstanding, comprised of our Secured Bonds (\$247.9 million) and our Working Capital Facility (\$71.4 million). Following the redemption of the Secured Bonds on March 10, 2006, our long term indebtedness under the BBLF Facilities is approximately \$304 million. The level of debt that we have and the limitations imposed on us by the corresponding agreements that we have entered into has important consequences for our business, including the following:

- a significant portion of our cash flow from operations is used for servicing debt, rather than operations;
- we may not be able to obtain additional debt or equity financing for future working capital, capital expenditures or other corporate purposes;
- we may remain vulnerable to economic downturns and be less able to take advantage of significant business opportunities and react to changes in market or industry conditions; and

- our less leveraged competitors may have a competitive advantage.

Our ability to pay our debt obligations depends on our current and future performance. To a significant extent, our performance will be subject to general economic, financial, competitive, legislative, regulatory and other factors, including lumber prices and exchange rates, all of which are beyond our control. No assurance can be given that our business will generate sufficient cash flow from operations to pay our debt obligations or fund our other liquidity needs. We have not generated sufficient cash flow from operations since emerging from CCAA to service our debt obligations and have had to draw on our Working Capital Facility. We believe it will be necessary for us to reduce our level of indebtedness and debt service requirements to sustain and improve our operating performance, particularly if market conditions for our products do not improve.

Cash Flow and Liquidity

As a result of the continuing strength of the Canadian dollar, the softwood lumber dispute, current market conditions and our current capital and operating cost structure, we have not generated sufficient cash flows from operations to meet our debt service obligations and to fund the capital requirements and structural changes of our business.

The Company incurred a net loss for the year ended December 31, 2005 of \$139.6 million and at December 31, 2005, has an accumulated deficit of \$145.1 million. Included in the net loss for the year ended December 31, 2005 is \$73.4 million in write-downs of assets and operating restructuring costs related to the pulp mill and sawmill closures and \$7.4 million for operating losses of the pulp mill which was closed permanently in early 2006.

As at December 31, 2005, we had approximately \$319.3 million of indebtedness outstanding comprised of our Secured Bonds and Working Capital Facility. Our ability to pay our debt obligations depends on our current and future performance. To a significant extent, our performance will be subject to general economic, financial, competitive, legislative, regulatory and other factors, including exchange rate and lumber prices, all of which are beyond our control. At December 31, 2005, the Company had cash, restricted cash and available lines of credit totaling \$54.5 million to fund future operations.

In response to the losses incurred during 2005, the Company closed and consolidated certain of its operations so as to lower its cost structure and improve future operating results. In addition, the Company has entered into an agreement to acquire Cascadia. The Company is financing the proposed Acquisition and raising additional working capital through the Rights Offering and a refinancing of its long-term debt and bank indebtedness. Closing of the Acquisition is dependent on receiving approvals from certain governmental authorities.

Market conditions including foreign exchange rates, prices for its products and other factors will have a significant impact on the ability of the Company to improve financial performance over the next fiscal year. In addition to market conditions, future profitable operations on a long-term basis are also dependent on the Company's ability to successfully integrate its operations with Cascadia's operations and realize significant synergies that we believe should help reposition the Company to successfully compete in global softwood markets. The Company anticipates that the governmental approvals will be received in April of 2006 and the Acquisition will close and the proceeds of the Rights Offering will be released at that time. In the event that market conditions are not favourable and the Acquisition and related financings does not close, the Company will need to consider other strategic alternatives to finance and maintain its operations.

Variable Operating Results and Product Pricing

Our financial performance is principally dependent on the prices received for lumber, logs and other products. Average prices that we receive for lumber and logs are dependent on the product mix sold as prices vary significantly between species and grade. There is generally some correlation between lumber and log prices over the long-term although they may not correlate closely in the short term due to supply imbalances. Prices for these products are highly cyclical and have fluctuated significantly in the past and may fluctuate significantly in the future. We cannot provide any assurance as to the timing and extent of any price improvements. On an annualized basis, we estimate that a change of \$50 per thousand board feet of lumber would impact operating earnings by approximately \$36 million. Following the Acquisition, we estimate that for the combined business a change of \$50 per thousand board feet of lumber would impact operating earnings by approximately \$60 million on an annualized basis.

The markets for these products are highly cyclical and are characterized by periods of excess product supply due to many factors, including:

- additions to industry capacity;

- increased industry production;
- periods of insufficient demand due to weak general economic activity or other causes including weather factors; and
- inventory destocking by customers.

Demand for these products is influenced to a significant degree by the global level of economic activity. Additionally, even though costs may increase, customers may not accept price increases for these products. We are not able to predict with certainty market conditions and prices for these products. The results of operations of the Company, and after the proposed Acquisition, Cascadia will depend primarily upon the prices we receive for lumber, logs and chips, and a deterioration in prices of or demand for these products could have a material adverse effect on the financial condition or results of operations of the Company, and after the proposed Acquisition, the combined business.

Our financial performance is also dependent on the rate at which production capacity is utilized. When capacity utilization is reduced in response to weak demand for products, the cost per unit of production will increase, and profitability will decrease. For example, the down-time taken at logging and sawmill operations will generally reduce working capital and preserve liquidity but will also result in higher cost per unit due to the lower production volumes and the expensing of fixed cost over this period.

Risks of Exchange Rate Fluctuations

Excluding pulp, approximately 62% of our sales are made in US dollars, while most of our operating costs and expenses are incurred in Canadian dollars. Our results of operations are reported in Canadian dollars. Significant variations in relative currency values, particularly a significant increase in the value of the Canadian dollar relative to the U.S. dollar has had, and in the future could have, a material adverse effect on our operating earnings and cash flows. On an annualized basis, excluding the effect on our long-term debt, we estimate that a change of 1% in the value of the Canadian dollar per U.S.\$1.00 would impact operating earnings by approximately \$4 million.

Following the Acquisition, approximately 49% of the Company's sales will be denominated in U.S. dollars and 9% of combined sales will be denominated in Japanese Yen, while most of the operating costs and expenses will continue to be incurred in Canadian dollars. On an annualized basis, excluding the effect on our long-term debt, we estimate that a change of 1% in the value of the Canadian dollar per U.S.\$1.00 would impact operating earnings of the combined business by approximately \$6 million.

For the one and two years ended December 31, 2005, the Canadian dollar has appreciated by 3% and 11%, respectively, against the U.S. dollar and by 19% and 22%, respectively, against the Japanese Yen.

Following the redemption of our Secured Bonds on March 10, 2006 from the proceeds of the BBLF facilities, we have long-term debt denominated in U.S. dollars of U.S.\$187.5 million. Based on the exchange rate in effect on March 10, 2006 of \$1.1695, a 1% increase or decrease in the value of the U.S. dollar relative to the Canadian dollar would have a corresponding effect of \$2 million on the principal amount of the debt and a corresponding effect of \$0.3 million on the annual interest expense when translated into Canadian dollars.

Softwood Lumber Dispute

The USDOC found that imports of softwood lumber from Canada into the United States were dumped and unfairly subsidized and the USITC determined that the softwood lumber industry in the United States was threatened with material injury by reason of the imports of softwood lumber from Canada. As a result of this finding and determination, the USDOC issued countervailing and antidumping duty orders, which took effect on May 22, 2002. These duties have had a material adverse impact on the operations of our Predecessor and on our operations including reduced profit margins. Cumulative duties, including those of our Predecessor, from May 22, 2002, when cash deposits were made necessary for shipments of Canadian lumber into the United States, until December 31, 2005, total approximately U.S.\$104.2 million. Pursuant to the Plan, we have the right to any refunds of duties paid by our Predecessor, and may have the obligation to pay further duties. Cascadia and its predecessors have similarly paid such duties in the past; however, under the terms of the Acquisition Agreement and other related agreements, we will not be entitled to retain any refunds due in respect of Cascadia's or its predecessors' operations prior to the closing of the Acquisition.

On November 23, 2005, we were notified that we had been selected as a mandatory respondent in the antidumping duty third administrative review of certain softwood lumber products from Canada. We were selected, along with seven other companies, under the USDOC's new "probability proportional to size" sampling methodology. The review covers the

period from May 1, 2004 to April 30, 2005. We are currently posting antidumping duty deposits at the (second) administrative review-specific average rate of 2.11% on the value of our lumber shipments to the United States. (The rates of the mandatory respondents are averaged to determine the review-specific average rate.) Following the review, we will post antidumping duties at the "company specific" rate determined for us. We do not expect to receive the final results of the USDOC review until December 2006, consistent with the timing of the USDOC determinations announced in 2005. The risk of a new "company specific" rate is that our antidumping duty deposit rate may increase, effectively increasing the cost of new lumber being shipped to the United States which may reduce our ability to compete relative to other lumber producers. A new "company-specific" rate may also increase our antidumping duty liability for entries during the third review period beyond the amount of estimated antidumping duties that has been deposited. We have been working with international trade lawyers and accountants to prepare our filings with the USDOC. While there is a risk that our antidumping rate will increase we are unable to predict what the ultimate rate will be or how it will compare to the antidumping rates of the other mandatory respondents or the (third) administrative review-specific average rate applied to non-mandatory respondents once calculated.

Cascadia is currently posting antidumping deposits at the original "all others" rate of 11.54% on its shipments of lumber into the United States, compared to the second review average rate currently being posted by us of 2.11%. There is a risk that following the Acquisition and we may be required to post antidumping deposits in excess of the total amounts currently being posted by the Company and Cascadia.

Although the Federal Government, other provincial governments of Canada and Canadian forest product companies have initiated challenges under the NAFTA and before the WTO, it is not possible to predict the ultimate results of such challenges. The final amount of countervailing and antidumping duties that may be assessed on Canadian softwood lumber exports to the United States cannot be determined at this time and will depend on the outcome of the challenges and appeals of the final determinations to any reviewing courts, NAFTA or WTO panels or on a negotiated settlement. Unless the challenges are resolved in favour of Canadian lumber companies, the softwood lumber dispute will continue to adversely impact on the financial condition and results of operations of the combined company.

Long-Term Competition

The markets for our products are highly competitive on a domestic and international level, with a large number of major companies competing in each market. Many of our and Cascadia's competitors have substantially greater financial resources and less debt than we do. Some of these competitors have the advantage of not being affected by fluctuations in the value of the Canadian dollar to the same extent that we are. We also compete indirectly with firms that manufacture substitutes for solid wood products, including non-wood and engineered wood products. While the principal basis for competition is price, we also compete to a lesser extent on the basis of quality and customer service. Changes in the level of competition, industry capacity and the global economy has had, and is expected to continue to have, a significant impact on the selling prices and overall profitability of the Company. Our competitive position will be influenced by factors including the availability, quality and cost of fibre, energy and labour, and plant efficiencies and productivity in relation to our competitors. Changes in the political and social environment in which we operate may also impact our ability to compete. We expect that our competitive position will continue to be adversely affected by the increased value of the Canadian dollar relative to the U.S. dollar and the Japanese Yen and by U.S. countervailing duties and antidumping rates imposed on softwood lumber shipments to the United States, as described under "*Risk Factors — Softwood Lumber Dispute*".

Mountain Pine Beetle

The west-central interior of British Columbia is currently being affected by North America's largest recorded mountain pine beetle infestation. We do not operate in the affected area and lodgepole pine, the species most at risk from the infestation, is not a key source of timber in the coastal forests. This natural disaster is causing widespread mortality of lodgepole pine, with over 280 million cubic metres of timber estimated to be lost. The infestation will likely only be stopped as a result of a period of extremely cold weather. In the short-term, timber harvest levels have increased to use the dead trees before they decay and lose their commercial value. The increase in harvest levels as producers seek to harvest the dead trees has resulted in higher lumber production volumes and therefore more supply in the marketplace, limiting any potential price increases. In addition, pulp log prices have been negatively affected by higher volumes of residual wood chips. We are unable to predict when and if the mountain pine beetle infestation will be halted or its impact on future lumber chip and pulp log prices.

Dependency on Fibre Obtained from Government Timber Tenures

Currently, substantially all of the timberlands in which we and Cascadia operate are owned by the Province and administered by the Ministry of Forests. The Forest Act empowers the Ministry of Forests to grant timber tenures, including

TFLs, FLs and TLs to producers. The Provincial Chief Forester must conduct a review of AAC for each timber supply area and each TFL in the Province on a periodic basis which is usually once every five years. This review is then used to determine the AAC for licenses issued by the Province under the Forest Act. Many factors affect the AAC such as timber inventory, the amount of operable forest land, growth estimates of young forests, regulation changes and environmental and social changes. Such assessments have in the past resulted and may in the future result in reductions of the AACs attributable to licenses held by British Columbia forest companies (without compensation), including the licenses that we and Cascadia own. In addition, our AAC can be temporarily reduced (without compensation for the first four years) in areas where logging has been suspended under Part 13 of the Forest Act pending further consideration in land use planning. Land use planning and new harvesting regulations can constrain access to timber and new parks can permanently remove land from the timber harvesting land base. There can be no assurance that the amounts of such future reductions on our licenses, if any, will not be material or the amounts of compensation, if any, for such reductions will be fair and adequate.

Forest Policy Changes in British Columbia

In 2003 and 2004, the Province implemented the most significant legislative reforms in the British Columbia forest industry in over 40 years. The most controversial aspect of these legislative reforms involved the Province taking back approximately 20% of the AAC from major license holders, including us and Cascadia. The first phase of negotiations on compensation due to us was concluded in 2004 with an initial payment to us of \$21.5 million. A final comprehensive settlement agreement, with a further but much lower payment, is expected to be reached in 2006.

As many of the legislative changes from the legislative reforms are relatively new and we have not finally settled the compensation issue, it is not possible to predict how the combined business will be affected by these changes in future periods.

Stumpage Fees

Stumpage is the fee that the Province charges forest companies to harvest timber from Crown land in British Columbia. On January 16, 2004, the Provincial Government announced the move to a more open and competitive market pricing system for timber and logs for the coastal region. Prior to February 29, 2004, the amount of stumpage paid for each cubic metre of wood harvested from the coastal region was based on a target rate set by the Province. Since February 29, 2004, stumpage for the coastal region is being set using the MPS. The MPS uses the results from British Columbia timber sales auctions to predict the value of Crown timber harvested under long-term tenures. In this way, the Province believes that stumpage prices will become market-based.

The stumpage system is complex. It continues to be the subject of discussion involving, among other things, lumber trade issues between Canada and the United States in response to the U.S. claim that British Columbia's forest industry is subsidized, and consequently may be subject to further amendments. Periodic changes in the Province's administrative policy can also affect stumpage and the viability of individual logging operations. There can be no assurance that current changes or future changes to the stumpage system or the Province's administrative policy will not have a material impact on stumpage fees that we pay and consequently affect the financial condition and results of operations of the combined business.

Forest Resource Risk and Natural Catastrophes

Our timber tenures are subject to the risks associated with standing forests, in particular, forest fires, insect infestations and disease. Procedures and controls are in place to manage such risk through prevention and early detection. Most of the timber that we and Cascadia harvest comes from Crown tenures and insurance coverage is maintained only for loss of logs due to fire and other occurrences following harvesting. Utilizing the services of an insurance consultant, we believe we have adequate insurance coverage to protect our assets from undue risk and that this coverage is in line with that of other large forest product companies operating in British Columbia. However, this coverage does not extend to standing timber, and there is no assurance that this coverage would be adequate to provide protection against all eventualities, including natural catastrophes.

International Business

In general, the Company's and, following the proposed Acquisition, the combined business' sales will be subject to the risks of international business, including:

- fluctuations in foreign currencies;
- changes in the economic strength of the countries in which we conduct business;

- trade disputes;
- changes in regulatory requirements;
- tariffs and other barriers;
- quotas, duties, taxes and other charges or restrictions upon exportation; and
- transportation costs and the availability of carriers.

The combined business' principal products are sold in international markets. Although we believe the Acquisition will diversify the markets that we have access to, the economic conditions in these markets and particularly the United States, Japan and Europe, the strength of the housing markets in the United States and Japan, and international sensitivity to interest rates, can all have a significant effect on the combined business' financial condition and results of operations.

Environmental Regulation

We and Cascadia are subject to extensive environmental laws and regulations. These laws and regulations impose stringent standards on our operations and impose liability to remedy problems for which we are legally responsible regarding, among other things:

- air emissions;
- land and water discharges;
- operations or activities affecting watercourses or the natural environment;
- operations or activities affecting species at risk;
- use and handling of hazardous materials;
- use, handling and disposal of waste; and
- remediation of environmental contamination.

We may incur substantial costs to comply with current or future requirements, to respond to orders or directions made, to remedy problems for which we are legally responsible or to comply with new environmental laws that may be adopted from time to time. In addition, we may discover currently unknown environmental problems or conditions affecting our or the combined business' operations or activities or for which we are otherwise legally responsible. Any such event could have a material adverse effect on us, and following the proposed Acquisition, the combined business' financial condition, and results of operations.

First Nations Land Claims

First Nations groups have made claims of rights and title to substantial portions of land in British Columbia, including areas where our and Cascadia's timber tenures and operations are situated, creating uncertainty as to the status of competing property rights. The Supreme Court of Canada has held that aboriginal groups may have a spectrum of aboriginal rights in lands that have been traditionally used or occupied by their ancestors; however, such rights or title are not absolute and may be infringed by government in furtherance of a legislative objective, including forestry, subject to meeting a justification test. The effect on any particular lands will not be determinable until the exact nature of historical use, occupancy and rights in any particular piece of property have been clarified. The Supreme Court of Canada has also held that even before claims of rights and title are proven, the Crown has a duty to consult with First Nations, which can become a duty to seek possible accommodations, when the Crown has knowledge, real or constructive, of the potential existence of an aboriginal right or title and contemplates conduct that might adversely impact it. During the period before asserted claims are proven, the Crown is required to consult in good faith with the intention of substantially addressing First Nation concerns, but First Nations agreement is not required in these consultations.

First Nations are seeking compensation from governments (and in some instances from forest tenure holders) with respect to these claims, and the effect of these claims on timber tenure rights, including our timber tenures, cannot be estimated at this time. The Federal Government and Provincial Government have been seeking to negotiate settlements with aboriginal groups throughout British Columbia in order to resolve these claims. Any settlements that may result from these

negotiations may involve a combination of cash, land, resources, grants of conditional rights of resource co-management or to gather food on public lands, and some rights of self-government. The effect of such a settlement on the Company, and following the proposed Acquisition, the combined business' timber tenures or the amounts of compensation that we would receive for any taking from those tenures as a result of this process, if any, cannot be estimated at this time. See "*Risk Factors — Risks Associated with the Weyerhaeuser Purchase Agreement*".

Current Provincial Government policy requires that forest management and operating plans take into account and not infringe on aboriginal rights and title, proven or unproven, and provide for consultation with First Nations. This policy is reflected in the terms of our timber tenures, which provide that the Ministry of Forests may refuse to issue cutting permits in respect of a timber tenure if it is determined that the forestry operation would interfere with aboriginal rights and title. First Nations have, at times, sought to restrict the Provincial Government from granting or renewing forest tenures and other operating authorizations without their consent if these decisions could affect lands claimed by them. There can be no assurance that changes to the terms of the Company's or, following the proposed Acquisition of Cascadia, the combined business' timber tenures as a consequence of such consultation or action will not have an adverse effect on our financial condition or results of operations. See "*Risk Factors — Risks Associated with the Weyerhaeuser Purchase Agreement*".

The issues surrounding aboriginal title and rights are not likely to be resolved by the Federal Government or Provincial Government in the near future. In the interim period, the Ministry of Forests initiated its Forest and Range Agreements program with a view to addressing the Crown's legal obligations. This program provides revenue sharing and short term forest tenure opportunities for First Nations who enter into agreements with the Provincial Government. The Ministry of Forests has stated it intends to provide approximately 8% of the Province's total Crown AAC to First Nations under this program or otherwise, using the AAC taken from other licensees under the Forestry Revitalization Act. The re-allocation of tenure to First Nations is in progress and the continuity of the timber supply from these short-term tenures is uncertain.

Regulatory Risks

Our and Cascadia's forestry and sawmill operations are subject to extensive federal, provincial, state, municipal and other local laws and regulations, including those governing forestry, exports, taxes, labour standards, occupational health, waste disposal, environmental protection and remediation, protection of endangered and protected species and land use and expropriation. Under certain laws and regulations, we and Cascadia are also required to obtain permits, licenses and other authorizations to conduct our operations, which permits, licenses and authorizations may impose additional conditions that must be satisfied. Although we budget for expenditures to maintain compliance with such laws and permits, there can be no assurance that these laws and regulations or government policy will not change in the future in a manner that could have an adverse effect on the Company, and following the proposed Acquisition, the combined business' financial condition or results of operations or the manner in which we operate. Nor can there be any assurance that administrative interpretation of existing laws and regulation will not change or more stringent enforcement of existing laws will not occur, in response to changes in the political or social environment in which we operate or otherwise, in a manner that could have an adverse effect in the combined business financial conditions or results of operations or manner in which we operates.

Legal Proceedings

In addition to the litigation discussed herein, we and Cascadia are currently subject to routine litigation incidental to our respective businesses, the outcome of which we do not anticipate will have a material adverse affect on the financial condition and results of operations of the combined business.

Following the Acquisition, we will be the largest forest company with operations concentrated on the British Columbia coast. It is therefore possible that, following the Acquisition, we will increasingly become the subject of routine litigation in the normal course of our business activities, which may adversely affect the financial condition or operations of the combined business.

On January 11, 2006 a claim was filed against Cascadia and others claiming patent infringement and breach of contract arising from single-stem helicopter logging operations. The plaintiff has sought damages and an injunction prohibiting further single-stem logging. We are unable to determine at this time the outcome of this dispute or its financial impact on the combined business.

Reliance on Directors, Management and Other Key Personnel

We rely upon the experience and expertise of our personnel. No assurance can be given that the combined business will be able to retain its current personnel and attract additional personnel as necessary for the development and operation of the

combined business. Loss of, or failure to attract and retain key personnel could have a material adverse effect on the combined business.

Employees and Labour Relations

The majority of the hourly paid employees at our and Cascadia's manufacturing facilities and timber harvesting operations are unionized. Our current collective agreements expire in June 2007, in respect of the majority of our hourly workers in our solid wood segment, and in Cascadia's case, at various dates through to June 2007. Our inability to negotiate an acceptable contract at the time that the existing collective agreements expire with any of the unions could result in a strike or work stoppage by the affected workers and increased operating costs as a result of higher wages or benefits paid to union members. If the unionized workers engage in a strike or other work stoppage, the combined business could experience a significant disruption of its operations or higher ongoing labour costs, which could have a material adverse effect on the financial condition or results of operations of the combined business.

In addition, we and Cascadia rely on certain third parties whose workforces are unionized to provide us with services needed to operate the combined business. If their workers engage in strike or other work stoppages, the combined business' operations could be disrupted.

In addition to the risk factors discussed above the following risk factors specifically relate to the proposed Acquisition and the associated Rights Offering:

Dilution

We currently have 25,631,795 Common Shares outstanding. As a result of the Rights Offering, we have issued approximately 178.8 million Subscription Receipts that will be exchangeable for Common Shares (or Non-Voting Shares in the case of certain Subscription Receipts held by Tricap Management).

Approval for Proposed Acquisition of Cascadia

The Subscription Receipts will not be exchanged for Common Shares and the funds received by the Company will be returned unless the proposed Acquisition closes on or prior to May 10, 2006. It is possible that the required regulatory approvals will not be received, or that the Acquisition Agreement will be terminated. If the required approvals are not received prior to the earliest of May 10, 2006 or the date the Acquisition Agreement is terminated, the Subscription Receipts will be cancelled and holders of Subscription Receipts will receive an amount equal to the subscription proceeds for the Subscription Receipts and their pro rata entitlement to interest on such amount.

Integration of Cascadia

Following the proposed Acquisition, our integration of Cascadia may result in significant challenges, and our management team may be unable to accomplish the integration smoothly or without spending significant amounts of money. There can be no assurance that our management team will be able to integrate the Cascadia operations successfully. Our management team's inability to successfully integrate the Cascadia operations could have a material adverse effect on the financial condition and results of operations of the combined business.

Risks Associated with the Weyerhaeuser Purchase Agreement

The assets of Cascadia were recently acquired from Weyerhaeuser pursuant to the Weyerhaeuser Purchase Agreement. Among other things, Cascadia assumed the responsibility for environmental conditions on the lands (including the lands within the timber tenures) it acquired from Weyerhaeuser, as well as responsibility for claims made by First Nations groups in connection with Weyerhaeuser's British Columbia coastal operations (except to the extent that those claims were assumed by Island Timberlands in its purchase of the private lands business from Weyerhaeuser). Cascadia received the benefit of representations from Weyerhaeuser in the Weyerhaeuser Purchase Agreement, subject to certain disclosure made to Cascadia by Weyerhaeuser and the thresholds for claims made under that agreement. Since Cascadia purchased the Weyerhaeuser Assets as part of a larger transaction, these thresholds are higher than would have been typical for transactions involving a company of Cascadia's size and, accordingly, our ability to recover in respect of any claims to which these thresholds apply will be relatively limited. Weyerhaeuser's indemnification obligations under the Weyerhaeuser Purchase Agreement are also limited in duration and amount. In addition, certain of Cascadia's tenures are currently the subject of First Nations claims, as described under "Acquisition of Cascadia — Business of Cascadia — First Nations Land Claims" and "Risk Factors — First Nations Land Claims" in the Rights Offering Prospectus. We and

Cascadia will not be entitled to claim any indemnity or recovery from the Seller or Weyerhaeuser to the extent that these First Nations claims, or other claims based on First Nations title and rights, adversely impact our ability to continue to operate on Cascadia's current tenures. As such, there can be no assurance that these or other potential liabilities of Cascadia will be recoverable from the Seller or Weyerhaeuser in all circumstances.

Change of Control of Western

Pursuant to the Rights Offering and Standby Commitment, Tricap Management acquired 138,155,734 Subscription Receipts. Pursuant to the Exchange Limitation provisions of the Subscription Receipt Agreement, should Tricap Management or Tricap Group hold the same number of Subscription Receipts on the closing of the Acquisition when they are exchangeable into Common Shares, we have the right to permit Tricap Management to exchange only 53,574,920 Subscription Receipts for Common Shares such that Tricap Management or Tricap Group will not beneficially own, or exercise control or direction over, more than 49% of the Common Shares then outstanding. The balance of the Subscription Receipts owned, or controlled or directed, by Tricap Management will remain outstanding after the closing of the Acquisition and will be exchanged for Non-Voting Shares or, in certain circumstances, Common Shares or cash. As such, it is not expected that such change of control of Western will occur as a result of the Rights Offering or the related transactions. However, it may be necessary in certain limited circumstances to undertake subsequent financing or other transactions in order to prevent the occurrence of a change of control as a consequence of the issuance of securities in accordance with the Subscription Receipt Agreement, and we may determine that it is not possible or practical, from a business perspective, to implement such transactions. If such change of control were to occur, whether by the subsequent acquisition of additional Common Shares by Tricap Management or by other members of the Tricap Group or otherwise, there could be significant adverse consequences to Western. If it is determined that there has been an acquisition of control for Canadian tax purposes we may lose the benefit of historical tax losses of subsidiaries that were incurred by our Predecessor in its operations, which may limit our ability to shelter future operating income from tax. In addition, if Tricap Management or any member of the Tricap Group were to acquire sufficient Common Shares to constitute a change or acquisition of control of Western, and the Minister of Forests were to be satisfied the change or acquisition of control unduly restricted competition in standing timber, log or wood chip markets, the Minister of Forests could make a determination to cancel all or a part of our Forest Act tenures (including those held by or acquired from Cascadia). If this were to occur, we may have to obtain the fibre to run the combined business facilities from external sources, perhaps at a higher cost. A significant increase in our costs could have a material adverse effect on the financial condition and results of operations of the combined business. Also, if Tricap Management or Tricap Group were to acquire 50% or more of the Common Shares, the Acquisition would be deemed to be a reverse take-over transaction for accounting purposes, with Cascadia deemed to be the acquirer.

Certain Voting Rights of the Non-Voting Shares

The holders of Non-Voting Shares will generally not be entitled to vote at meetings of our shareholders. They will, however, be entitled to one vote per share on any vote relating to our liquidation, dissolution or winding-up, or the sale, lease or exchange of all or substantially all of our property and as otherwise provided by law or any amendment that would add, change or remove attributes of the Non-Voting Shares or any class of share adversely affecting the Non-Voting Shares either separately or in relation to the Common Shares. As such, holders of Non-Voting Shares will be able to vote on, and potentially affect the outcome of, certain transactions, such as our liquidation or winding-up or the sale of substantially all of our assets.

Possible Remedial Action by the Minister of Forests

If we do not proceed with a pre-closing transfer of Cascadia's timber tenures to us or a Western subsidiary pursuant to a notice to proceed issued by the Minister of Forests, there is a risk that following our acquisition of control of Cascadia, the Minister of Forests could determine that the Acquisition unduly restricts competition in standing timber, log or chip markets, and could cancel all or part of Cascadia's forest tenures. It is a condition of closing of the Acquisition that the Minister of Forests issue a notice to proceed for a pre-closing transfer of Cascadia's tenures, which notice the Minister must issue if the Minister is satisfied the transaction will not unduly restrict competition and certain other conditions are met. Nevertheless, there can be no assurance that the Minister of Forests will not take remedial action in the circumstances described above and if this were to occur, we may have to obtain the fibre to run the combined business' facilities from external sources, perhaps at a higher cost. A significant increase in our costs could have a material adverse effect on the financial condition and results of operations of the combined business.

Risks Associated with the Purchase of TFL 37

Although we have closed the acquisition of the Englewood Logging Division including TFL 37, the transfer of title to the approximately 6,800 hectares of private timberlands included in TFL 37 is subject to approval by the Ministry of Forests and is expected to take up to 60 days to complete. In the interim, we are able to harvest the timber on those private timberlands under the provisions of a harvesting agreement with Canfor at no net cost to the Company. While we anticipate the transfer of title will be approved there can be no assurance that this will be the case in which circumstances we will continue to harvest the timber in accordance with the agreement but will not have the ability to sell the lands at some future date should we so choose.

These business risks, should be considered in the context of our business, which is described under "General Development of the Business" and "Business of the Company".

DIVIDENDS

The payment of dividends on the Common Shares is at the discretion of the Board and depends on our financial condition, the need to finance capital expenditures, financial covenants in credit agreements and other factors the Board may consider appropriate. No dividends have been paid by us on the Common Shares.

The BBLF Facilities contains covenants limiting certain restricted payments, including the payment of dividends on Common Shares. The BBLF Facilities provide, among other things, that any subsidiary may declare or pay dividends or otherwise make distributions in cash to us or a guarantor under the BBLF Facilities.

CAPITAL AND DEBT STRUCTURE

Share Capital

Western's authorized capital consists of an unlimited number of Common Shares and an unlimited number of Preferred Shares, of which, as of the date hereof, 25,631,795 Common Shares are issued and outstanding, and no Preferred Shares are issued and outstanding.

As a result of the Rights Offering, we have also issued 178,781,770 Subscription Receipts which are (subject to the Exchange Limitation) exchangeable for Common Shares at the time of closing of the Acquisition.

If the exchange of Subscription Receipts would result in a holder or group of holders beneficially owning, or exercising control or direction over, 50% or more of the Common Shares, we will permit the exchange of only that portion of the Subscription Receipts owned by such holder(s) that would result in the holder(s) beneficially owning, or exercising control or direction over, 49% of the Common Shares then outstanding (the "Exchange Limitation"). The balance of the Subscription Receipts beneficially owned, or controlled or directed, by those holder(s) will remain outstanding after the Closing Date after we have amended our articles to create a new class of non-voting shares. Provided this amendment is approved by the holders of our Common Shares, the Subscription Receipts held by such holder(s) will be exchanged for non-voting shares. For further details regarding the non-voting shares, see the Rights Offering Prospectus under "Non-Voting Shares".

All the Common Shares rank equally as to voting rights, participation in a distribution of our assets on a liquidation, dissolution or winding-up and the entitlement to dividends. The holders of the Common Shares are entitled to receive notice of all meetings of shareholders of Western (other than meetings of holders of another class of shares) and to attend and vote the shares at such meetings. Each of the Common Shares carries with it the right to one vote.

In the event of our liquidation, dissolution or winding-up or other distribution of our assets for the purpose of winding up our affairs, the holders of Common Shares will be entitled to receive on a pro rata basis, all of our assets remaining after payment of all of our liabilities, subject to the rights of the holders of Preferred Shares. The Common Shares carry no preemptive, exchange or conversion rights. Subject to the rights of the holders of Preferred Shares, the holders of the Common Shares are entitled to receive on a pro rata basis such dividends as our Board of Directors may declare out of funds legally available therefore.

Provisions as to the modification, amendment or variation of the rights attached to the Common Shares are contained in the CBCA. Generally speaking, substantive changes to Western's share capital require the approval of Western's shareholders by special resolution (at least 2/3 of the votes cast).

The Preferred Shares may, at any time or from time to time, be issued in one or more series, and the directors may, by resolution, fix the number of Preferred Shares in, and determine the designation, rights, privileges, restrictions and conditions attaching to the Preferred Shares of each series. Before issuing Preferred Shares of a series, the directors must file with the Director of the CBCA articles of amendment. Preferred Shares of each series rank on a parity with the Preferred Shares of every other series with respect to priority in the payment of dividends and in the distribution of our assets in the event of our liquidation, dissolution or winding-up or any other distribution of our assets among shareholders for the purpose of winding-up our affairs.

If Preferred Shares were outstanding, the holders of such shares would be entitled to priority over the Common Shares with respect to the payment of dividends and the distribution of our assets on a liquidation, dissolution or winding-up or other distribution of our assets for the purpose of winding up our affairs. The Preferred Shares of each series may be given such other preferences not inconsistent with the above over the Common Shares as may be determined in the case of each series authorized to be issued.

Except as otherwise required by law, the holders of the Preferred Shares are not be entitled to receive notice of or to attend or to vote at any meeting of shareholders of Western.

An annual meeting of Western's shareholders must be held once in every calendar year not later than 15 months after the last preceding annual meeting, but no later than six months after the end of the preceding financial year, and at such place as our Board of Directors may determine in accordance with the CBCA. The holders of not less than 5% of Western's issued shares that carry the right to vote at a meeting may requisition the Board of Directors to call a meeting of shareholders for the purposes stated in the requisition. The Board of Directors may also whenever they think fit, convene a special meeting of shareholders. The quorum for the transaction of business at any meeting of shareholders of Western is one or more individuals present or deemed to be present, each being one or more shareholders entitled to vote thereat or a duly appointed proxyholder or representative for an absent shareholder so entitled, and holding or representing by proxy not less than 5% of our outstanding shares entitled to vote at the meeting. The only persons entitled to be present at a meeting of shareholders are those persons entitled to vote thereat, the directors and auditors of Western and others who are entitled or required under the CBCA or our articles or bylaws to be present at a meeting of shareholders.

Class C Warrants

As of the date hereof, 569,373 Tranche 1 Class C Warrants, 854,146 Tranche 2 Class C Warrants and 1,423,743 Tranche 3 Class C Warrants are issued and outstanding. The Class C Warrants were issued under the Class C Warrant Indenture entered into with the Class C Warrant Trustee in connection with the implementation of the Plan. Each Class C Warrant entitles the holder to purchase one Common Share (subject to certain adjustments) at the following exercise price: Cdn.\$16.28 for Tranche 1 Class C Warrants, Cdn.\$26.03 for Tranche 2 Class C Warrants, and Cdn.\$33.83 for the Tranche 3 Class C Warrants.

The Class C Warrants are non-transferable and have a five-year term that expires on July 27, 2009, subject to early termination provisions. Western is entitled to give a 30-day notice of termination with respect to any tranche of Class C Warrants if, during a 20-day trading period ending prior to the fifth business day prior to the date of such notice, the Common Shares trade at a weighted average price per share that is more than 125% of the exercise price of such tranche. In addition, on or after the first anniversary of the Plan Implementation Date, the Class C Warrants will expire upon any amalgamation or similar business combination that results in the shareholders of the Western owning less than 80% of the issued and outstanding equity shares of the continuing entity.

Stock Options

Western has an Option Plan which permits the granting of options to eligible participants to purchase up to a maximum of 2,500,000 Common Shares, which have been reserved for issuance under the Option Plan. As of the date hereof, 399,590 options have been granted.

The Option Plan provides that the Board of Directors may from time to time grant options to acquire Common Shares to any participant who is an employee, officer or director of Western or its affiliates or a consultant to Western or its affiliates. The exercise price for options granted pursuant to the Option Plan will be determined by the Board on the date of the grant, which price may not be less than the market value. Market value is defined as the closing price of the Common Shares on the TSX on the trading day immediately preceding the grant and if there is no closing price the last sale prior thereto. The term of the options granted under the Option Plan is determined by the Board, which term may not exceed a maximum of ten years from the date of the grant. Pursuant to the Option Plan, additional terms and conditions, including vesting requirements, may be imposed by the Board on the options granted under the Plan.

The total number of Common Shares that may be reserved for issuance to any one participant pursuant to options granted under the Option Plan in any one year may not exceed 5% of the Common Shares outstanding (on a non-diluted basis) on the grant date of the options. The maximum number of Common Shares that may be issued to insiders of Western pursuant to options granted under the Option Plan within any one-year period, when taken together with the number of Common Shares issued to such insiders under Western's other previously established or proposed share compensation arrangements, may not exceed 10% of the issued and outstanding Common Shares on a non-diluted basis at the end of such period and, in the case of any one insider and his associates, may not exceed 5% of such issued and outstanding Common Shares. The maximum number of Common Shares that may be reserved for issuance under options granted to insiders under the Option Plan together with the number of Common Shares reserved for issuance to such insiders under Western's other previously established or proposed share compensation arrangements may not exceed 10% of the issued and outstanding Common Shares on a non-diluted basis at the grant date of the options.

Working Capital Facility

Western entered into a revolving line of credit evidenced by the Working Capital Facility and dated as of July 27, 2004 with CIT Business Credit Canada Inc. ("CIT") providing for revolving advances up to \$100 million principal. The total Working Capital Facility is subject to a borrowing base calculation based on the amount of eligible accounts receivable and inventories, which can vary significantly over time.

The Working Capital Facility has a term of three years with automatic annual renewals. Interest on the Working Capital Facility is payable monthly at a rate equivalent to the CIBC prime bank rate plus 0.75% per annum, or at our option, Banker's Acceptances plus 2.25% per annum.

Certain of our operating subsidiaries have provided guarantees to CIT to secure Western's obligations to CIT and Western granted CIT a first lien on, and security interest in, all of our present and future accounts receivable, inventory and other current assets.

Senior Secured Facilities

On March 10, 2006 Western entered into a new senior secured credit agreement with BBLF (the "BBLF Credit Agreement") pursuant to which BBLF provided Western with new senior secured credit facilities (the "BBLF Facilities") in the form of: (i) a U.S.\$187.5 million term loan facility (the "U.S. Facility"); and (ii) a \$90 million term loan facility (the "Canadian Facility"). The proceeds of the BBLF Facilities were used to redeem Western's U.S.\$221 million 15% Secured Bonds together with all accrued interest. The balance of the proceeds was used for general working capital purposes.

The U.S. Facility has a term of 48 months and the Canadian Facility has a term of 12 months, which term may be extended for one additional 12 month period. Interest on the BBLF Facilities is payable monthly. Interest on the U.S. Facility is payable at a rate equal to the one-month London Interbank Offered Rate plus 8.15% and interest on the Canadian Facility is payable at a rate equal to the Canadian prime rate plus 5.25%. Payment of such interest on the Canadian Facility has been deferred pursuant to the terms of the BBLF Credit Facilities.

Loans under the BBLF Facilities may be prepaid in a minimum amount of \$1,000,000 and in integral multiples of \$100,000 in excess of such amount thereafter, in each case, in Canadian Dollars or United States Dollars, as applicable.

The BBLF Facilities are guaranteed by all of Western's material subsidiaries (the "Guarantors"). Other than with respect to the Englewood Logging Division that is secured by a second charge, the obligations in respect of the BBLF Facilities are secured by a first lien on, and security interest in, all of Western's and each of the Guarantors' properties and assets including, without limitation, a pledge of shares of each of the Guarantors. BBLF was granted a first lien on Western's and each Guarantor's present and future fixed assets and by virtue of subordination to CIT, a second lien on all of Western's and each Guarantor's present and future working capital assets.

BBLF and CIT entered into an intercreditor agreement dated as of March 10, 2006, which sets forth BBLF's and CIT's agreement on certain intercreditor issues including, without limitation, BBLF's and CIT's relative priorities under the security granted by Western and each of the Guarantors.

MARKET FOR SECURITIES

Trading Price and Volume

As of the date hereof the Common Shares are listed and posted for trading on the TSX under the symbol "WEF". The following sets out the price range and volumes traded on the TSX on a monthly basis for each month of the most recently completed financial year:

Month	High	Low	Close	Volume
January/05	8.20	7.10	7.65	54,434
February/05	8.25	6.80	7.90	252,192
March/05	8.00	7.25	7.25	402,698
April/05	7.50	7.00	7.00	470,575
May/05	6.35	5.25	5.65	395,300
June/05	5.35	3.30	4.12	201,054
July/05	4.48	4.00	4.03	83,879
August/05	4.00	1.90	2.60	483,291
September/05	3.20	2.50	2.50	164,301
October/05	2.90	2.00	2.08	117,679
November/05	2.71	2.00	2.35	376,718
December/05	2.50	1.80	1.83	412,049

The Subscription Receipts are listed and posted for trading under the symbol "WEF-R". They will be delisted at the time of the closing of the Acquisition of Cascadia.

Prior Sales

We did not issue any Common Shares during the year ended December 31, 2005.

DIRECTORS AND OFFICERS

Western's articles provide that the Board is to consist of a minimum of three directors and a maximum of 15 directors. Western currently has 7 directors.

At each annual meeting of shareholders of Western, the entire Board of Directors retires and directors are elected for the next term. Each director serves until the close of the next annual meeting or until his successor is elected or appointed, unless his office is earlier vacated in accordance with our articles or with the provisions of the CBCA. Not less than 25% of the members of our Board of Directors are required to be resident Canadians, in accordance with the CBCA. Our officers serve at the discretion of the board.

The following sets forth the names, provinces of residence and principal occupations of the directors of Western as of the date hereof (the information concerning the respective directors has been furnished by each of them).

<u>Name and Province and Country of Residence</u>	<u>Position with Western</u>	<u>Director Since</u>
JAMES ARTHURS ⁽¹⁾⁽²⁾⁽³⁾ B.C., Canada	Director	July 27, 2004 ⁽⁵⁾
LEE DONEY ⁽²⁾⁽³⁾ B.C., Canada	Director	July 27, 2004 ⁽⁵⁾
PETER GORDON ^{(1) (4)} ON, Canada	Director	July 27, 2004 ⁽⁵⁾
REYNOLD HERT B.C., Canada	President, Chief Executive Officer and Director	October 4, 2004
JOHN LACEY ⁽³⁾⁽⁴⁾ ON, Canada	Director	July 27, 2004 ⁽⁵⁾

<u>Name and Province and Country of Residence</u>	<u>Position with Western</u>	<u>Director Since</u>
JOHN MACINTYRE ⁽¹⁾⁽³⁾ ON, Canada	Director and Chairman of the Board	July 27, 2004 ⁽⁵⁾
JOHN B. NEWMAN ⁽¹⁾⁽³⁾⁽⁴⁾ ON, Canada	Director	July 27, 2004 ⁽⁵⁾

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- (1) Member of the Audit Committee.
(2) Member of the Environmental, Health and Safety Committee.
(3) Member of the Nominating and Corporate Governance Committee.
(4) Member of the Management Resources and Compensation Committee.
(5) Initially appointed in accordance with the Plan.

James Arthurs, Director

Mr. Arthurs is and has been since 2004, the Senior Vice President, North American Operations for Integrated Paving Concepts Inc., a manufacturer of equipment, tooling and high technology coatings for the decorative asphalt industry. Prior to joining Integrated Paving Concepts, Mr. Arthurs was Managing Director, Operations, for The Jim Pattison Group, one of Canada's largest privately-held companies, from 2002 through 2004. From January 2002 to May 2002 he was the Sr. Vice President and Chief Information Officer for Alderwoods Group, Inc. (emergent company of the Loewen Group, operating funeral homes and operations within North America and the U.K.) and from May 2000 to January 2002, he was with the Loewen Group. The Loewen Group was the subject of CCAA proceedings in Canada and Chapter 11 proceedings in the U.S. from June 1, 1999 to December 31, 2001. Previous positions included Vice-President, Residential and Industrial Operations for Trus Joist, A Weyerhaeuser Company; and General Manager, Building Materials Distribution for MacMillan Bloedel Limited. In addition, Mr. Arthurs spent 16 years with IBM in a wide range of sales and management positions. Mr. Arthurs holds a Bachelor of Science Degree in Computer Science from the University of Calgary.

Lee Doney, Director

Mr. Doney is an independent consultant through his company, RLD Strategies. He is a director on the Community Living Board of the Provincial Government and the Chair of the Board of Columbia Power Corporation. Mr. Doney was a Deputy Minister in the British Columbia Government for over 15 years and served in a number of other posts in the government. Most recently, he was Deputy Minister of Skills and Development and Labour from June 2001 until his retirement in April 2004. Mr. Doney's previous responsibilities include Deputy Minister of Forests; Chief Executive Officer of Forest Renewal BC; Interim Chair, Industry Training and Apprenticeship Commission; Chief Executive Officer of the British Columbia Labour Force Development Board; Chairman of the Workers Compensation Board of Governors; Executive Director to the Provincial Round Table on the Environment and the Economy; and Executive Director for the BC Treaty Commission. He has a Masters Degree in Economics from Queens University.

Peter Gordon, Director

Mr. Gordon is Managing Partner, Restructuring for Brookfield Asset Management Inc. (formerly Brascan Corporation), where he is co-manager of the Tricap Restructuring Fund, a \$415 million fund providing investment capital and management assistance to companies experiencing financial or operational difficulties. He joined Brookfield in 1998 where he has been directly involved in its investment banking and merchant banking activities. Prior to 1998, he spent over fifteen years in the Canadian mining industry in the marketing, operating and finance areas with Westmin Resources Limited and Noranda Inc. Mr. Gordon is also a director of Northgate Minerals Corporation. He holds an MBA in addition to an engineering degree.

Reynold Hert, President, Chief Executive Officer and Director

Mr. Hert was appointed President, CEO and Director of Western on October 4, 2004. Prior to that he had spent 12 years with Weyerhaeuser in various roles, most recently in Kamloops, B.C., as Vice President, Canadian Forestlands and previously as Vice President, Canadian SPF Lumber. Mr. Hert joined Weyerhaeuser as part of the acquisition of Proctor & Gamble Grande Prairie assets. He managed the Grande Prairie sawmill at the time. He started in the Canadian forest industry while a forestry student at the University of Toronto, working in timber cruising in Ontario and Alberta. Mr. Hert has a Bachelor of Science Degree (Forestry) from the University of Toronto.

John Lacey, Director

Mr. Lacey became the Chairman of the Board of Directors of Alderwoods Group, Inc. (emergent company of Loewen Group, operating funeral homes and cemeteries within North America and the U.K.), on January 2, 2002. From January 1999 to January 2002, Mr. Lacey was the Chairman of the Board of Directors of the Loewen Group Inc., of which he was a director from December 1998 (The Loewen Group was the subject of proceedings in Canada and Chapter 11 proceedings in the U.S. from June 1, 1999 to December 31, 2001). From July 1998 to November 1998, he was President and Chief Executive Officer of The Oshawa Group Ltd. in Toronto, Ontario. From November 1996 to July 1998, he was President and Chief Executive Officer of WIC Western International Communications Inc. in Vancouver, British Columbia. Prior to that, Mr. Lacey served as President and Chief Executive Officer of Scott's Hospitality Inc. from 1990 to 1996. Mr. Lacey currently is a director of TELUS, Canadian Tire Corp., CIBC and Cancer Care Ontario and the Chairman of Doncaster Racing Inc. and Doncaster Consolidated Ltd. In addition, Mr. Lacey is a member of the advisory board of Tricap.

John MacIntyre, Director and Chairman of the Board

Mr. MacIntyre is, and has been since 2004, a partner in Birch Hill Private Equity (a successor to TD Capital's Private Equity Fund). From 2002 to 2004, he was an independent financial advisor. Until February 2002, Mr. MacIntyre was a Senior Vice-President of The Toronto-Dominion Bank, and Vice Chair, Global Head, Investment Banking, TD Securities. Prior to joining TD Securities in 1987, Mr. MacIntyre was with Ernst & Young. Mr. MacIntyre has been a director of several public and private corporations, and is currently a director of Ace Bakery Limited, Persona Communications Ltd., Coventree Capital Group Inc., and Nealanders International Inc. He is a member of the advisory boards of TD Capital Private Equity Investors, TD Capital Ventures and Tricap Restructuring Fund. Mr. MacIntyre is a Chartered Accountant, a Chartered Business Valuator and a graduate of Queen's University.

John B. Newman, Director

Since his retirement in 1990 as Deputy Chairman of Prudential Securities (Canada), Mr. Newman has served as Chairman and CEO of Multibanc Financial Holdings Limited, a private investment vehicle located in Toronto. Mr. Newman also served as Chairman and CEO of First Place Tower Inc., the owner of a 2.6 million square foot 72 storey office and retail complex located in Toronto, from its emergence from bankruptcy in 1995 until its sale in 1999. He is currently a director of a number of public and private Canadian corporations and trusts engaged in real estate, insurance, investment, manufacturing, distribution and financing, including Simmons Canada Inc., Multi-Fund Management Inc., Aviva Group Canada Ltd., Pilot Insurance Company and Utility Corporation. Mr. Newman was also an independent director of FT Capital Inc. until his resignation on December 17, 2002. FT Capital Inc. was operating under an agreed moratorium on its principal and interest payments on its subordinated debentures prior to Mr. Newman becoming one of its independent directors. Prior to Mr. Newman's resignation, FT Capital Inc. was subject to a number of cease trade orders issued in 2001 and 2002 by various securities regulatory authorities in Canada for failure to file financial statements while its principal shareholder B.C. Pacific Capital Corporation considered restructuring options with Brascan Financial Corporation. Those cease trade orders were subsequently terminated after FT Capital Inc. filed the requisite financial statements.

Senior Management (other than CEO)

The following sets forth the names, provinces of residence, offices held within Western of members of senior management (other than the CEO which is set forth above) of Western, as of the date hereof (the information concerning the respective members of senior management has been furnished by each of them).

<u>Name and Province and Country of Residence</u>	<u>Position with Western</u>
TREVOR BONIFACE..... BC, Canada	General Manager, Logging
DAN DYCK..... BC, Canada	General Manager, Sawmills
DAVE INGRAM..... BC, Canada	General Manager, Pulp Operations

<u>Name and Province and Country of Residence</u>	<u>Position with Western</u>
DUNCAN KERR BC, Canada	Senior Vice President and Chief Operating Officer
PAUL IRELAND BC, Canada	Chief Financial Officer and Corporate Secretary
MORRIS MANDZIUK BC, Canada	Treasurer
JENS NILAUSEN BC, Canada	General Manager, Lumber Sales
DEBBIE NUSSBAUM BC, Canada	Director, Human Resources

Trevor Boniface, General Manager, Logging

Mr. Boniface was named General Manager of Logging in January 2005 and prior to that was Regional Manager for the Nootka region since July 27, 2004. He was the Regional Manager for the Nootka region for Doman since 1998. Mr. Boniface started with Doman in 1977. As noted above, Doman and its subsidiaries were subject to CCAA proceedings. Mr. Boniface has a Bachelor of Science Degree in Forestry (Harvesting Option) and is also a Registered Professional Forester.

Dan Dyck, General Manager, Sawmills

Mr. Dyck has been our General Manager of Sawmills since July 27, 2004. Prior to that he was the General Manager of Sawmills for Doman since 2001 and prior to that he was the Manager of the Duke Point Sawmill. Mr. Dyck started with Doman in 1989. As noted above, Doman and its subsidiaries were subject to CCAA proceedings.

Dave Ingram, General Manager, Pulp Operations

Mr. Ingram has been the General Manager of Pulp Operations since July 27, 2004. Prior to that he was the General Manager of 4018974 Canada Inc. (formerly Western Pulp Inc.) (a subsidiary of Doman). From June 1991 to September 2004, he held the positions of Production Manager, Assistant Mill Manager and Mill Manager at the subsidiary's Squamish Operation. As noted above, Doman and its subsidiaries were subject to CCAA proceedings. Mr. Ingram held various technical and production positions with MacMillan Bloedel at their Harmac division from 1972 to 1991. Mr. Ingram is a graduate of Lakehead University with a diploma in Chemical Engineering Technology.

Duncan Kerr, Senior Vice President and Chief Operating Officer

Mr. Kerr has been Senior Vice President and Chief Operating Officer since August 2005. Prior to that he spent 12 years with RLG International, an international consulting company, the last 7 years as a senior project manager, advising a number of clients on performance improvement measures in the lumber, logging, pulp and paper, and energy sectors. Prior to that, Mr. Kerr was a mining engineer with Westmin Resources Limited. He has a Bachelor of Engineering from McGill University.

Paul Ireland, Chief Financial Officer and Corporate Secretary

Mr. Ireland was appointed as Chief Financial Officer of Western on January 24, 2005. From 2002 to 2004, he was the Vice-President, Finance of Diavik Diamond Mines Inc., a unit of Rio Tinto plc. From 1994 to 2000, Mr. Ireland was the Vice-President, Finance & Chief Financial Officer of Campbell Resources Inc. From 1992 to 1994 Mr. Ireland was the Manager of Special Projects and Internal Audit for Polaris Realty (Canada) Limited. Mr. Ireland started his career with Ernst & Whinney in London, UK and then moved to KPMG Peat Marwick Thorne in Toronto. He is a Chartered Accountant (Ontario, England and Wales) and has a Bachelor of Arts from the City of London Polytechnic.

Morris Mandziuk, Treasurer

Mr. Mandziuk has been our Treasurer since July 27, 2004. Prior to that he held various positions in the accounting, planning and treasury areas at Doman during his 16 years with the company. As noted above, Doman and its subsidiaries were subject to CCAA proceedings. Mr. Mandziuk is a Certified Management Accountant.

Jens Nilausen, General Manager, Lumber Sales

Mr. Nilausen has been our General Manager of Lumber Sales since September 12, 2005. He has been employed with us since July 27, 2004 as the Sales Manager for our Export Division and prior to that with Doman since June of 1998 in the same position. As noted above, Doman and its subsidiaries were subject to CCAA proceedings. Mr. Nilausen has over 25 years of experience in international lumber marketing and distribution, with a diverse background including work assignments in North America, Asia, Europe and Australia. He has a BA in Business Administration from the Copenhagen Business School, a diploma in Business Management from the University of British Columbia, and attended the European Institute of Business Administration in France (Young Manager's Program).

Debbie Nussbaum, Director, Human Resources

Ms. Nussbaum was named Director of Human Resources in May 2005 and prior to that was the Company's Employee Services Manager since July 27, 2004. She was the Employee Services Manager for the Sawmills Division of Doman since April, 2003. As noted above, Doman and its subsidiaries were subject to CCAA proceedings. From 1990 to 2003, Ms. Nussbaum held various positions within the scope of Employee Services for Tolko Industries, Manitoba Division (formerly Repap Manitoba). Prior to that she held various positions in employee services with Tolko Industries, Manitoba. Ms. Nussbaum is a Certified Payroll Manager with a focus on Human Resource Management studies.

As at the date hereof, except as described herein, none of our Common Shares are beneficially owned, directly or indirectly and no direction or control over any of our shares is exercised by any of our directors and senior officers of Western as a group. However, Mr. Gordon, as described above under "*Directors and Officers*", is an officer of Tricap. As of the date hereof Tricap Management (as manager for Tricap) has the right to direct and control 5,138,228 Common Shares or 20.05% of our issued and outstanding Common Shares and 138,155,734 Subscription Receipts (exchangeable on the closing of the Acquisition into 53,574,920 Common Shares and 86,580,814 non-voting shares) (49% of the issued and outstanding Common Shares on a fully diluted basis). (See "*Risk Factors – Change of Control of Western*") (See the Rights Offering Prospectus for a list of our other principal shareholders.) Also, as described above, each of Messrs. Lacey and MacIntyre are members of the independent advisory board of Tricap. Of the 5,138,228 Common Shares (beneficially owned by the co-investors in Tricap), 6,177 Common Shares are beneficially owned by Mr. Lacey and 441 Common Shares are beneficially owned by Mr. MacIntyre. However, as disclosed above, Tricap Management has the right to direct and control those Common Shares including the right to vote or dispose of the Common Shares.

CORPORATE GOVERNANCE AND BOARD COMMITTEES

Our Board has adopted a written mandate in which it has assumed responsibility for our stewardship and responsibility for overseeing the management of our business. In that regard, our Board carries out its mandate directly or through its committees described below.

The Board has established four committees of directors, being the Nominating and Corporate Governance Committee, the Environmental, Health and Safety Committee, the Management Resources and Compensation Committee and the Audit Committee.

Nominating and Corporate Governance Committee

The Nominating and Corporate Governance Committee was established for the following purposes:

- (a) monitoring significant developments in the law and practice of corporate governance and the duties and responsibilities of directors of public corporations;
- (b) developing and recommending to our Board the corporate governance principles of the Company and any modification or amendments thereto;
- (c) recommending to the Board appropriate criteria for the selection of new directors and periodically reviewing such criteria and, as necessary, recommending changes thereto;

- (d) making recommendations to the Board with respect to Board size and composition, and assisting the Board in the identification and selection of individuals qualified to become Board members, based on the criteria for selection of new directors adopted from time to time by the Board; and
- (e) recommending such procedures as may be necessary to allow the Board to function independently of management.

The committee is responsible for assessing our overall corporate governance principles, making recommendations on the size and composition of the Board, director recruitment and orientation, and making recommendations regarding compensation and benefit levels of directors.

The Nominating and Corporate Governance Committee is composed of the following directors:

John B. Newman – Chair
John Lacey
James Arthurs
Lee Doney
John MacIntyre

Environmental, Health and Safety Committee

The Environmental, Health and Safety Committee was established to assist the Board in respect of health and safety matters and the Company's compliance with applicable environmental legislation. It reviews and monitors matters relating to environmental, health and safety policies and procedures, and makes recommendations in areas of regulatory compliance.

The Environment, Health and Safety Committee is composed of the following directors:

Lee Doney – Chair
James Arthurs

Management Resources and Compensation Committee

The Management Resources and Compensation Committee was established to assist the Board with:

- (a) appointing and compensating executive officers and approving succession plans for executive officers;
- (b) approving and reporting to the Board respecting our human resources policies for executive officers; and
- (c) overseeing the administration of our compensation and benefits plans.

The committee is responsible, for:

- (a) reviewing and approving corporate goals and objectives relevant to CEO compensation, evaluating the CEO's performance in light of those corporate goals and objectives, and making recommendations to the Board with respect to the CEO's compensation level based on this evaluation;
- (b) reviewing compensation policies applicable to non-CEO officers and reviewing and approving non-CEO officer compensation; and
- (c) reviewing executive compensation disclosure before the Company publicly discloses this information.

The Management Resources and Compensation Committee is composed of the following directors:

John Lacey – Chair
Peter Gordon
John B. Newman

Audit Committee

The Audit Committee was established to assist the Board in fulfilling its oversight responsibilities regarding:

- (a) the accuracy and completeness of our financial statements;
- (b) our internal control and financial reporting systems;
- (c) the selection and activities of our external auditor;
- (d) risk management; and
- (e) our compliance with legal and regulatory requirements.

The committee is responsible for the oversight of financial reporting and disclosure, annual and quarterly review of financial statements, related MD&A and earnings release, and oversight of internal controls and disclosure procedures. The committee also recommends the appointment of our external auditors, reviews the annual audit plan and auditor compensation, approves non-audit services provided by the external auditor, reviews hiring policies regarding former staff and auditors and reviews the adequacy of our risk management policies and procedures.

The Audit Committee has adopted a charter that reflects these and other responsibilities. The charter as most recently approved by the Board of Directors as of the date hereof is attached as an appendix to this Annual Information Form.

The Audit Committee has adopted a policy that requires, in accordance with applicable law, its pre-approval of all non-audit services to be provided by the Company's auditors. See "*Pre-Approval Policies and Procedures of Non-Audit Services*".

Composition of and Education and Experience of Members of the Audit Committee

The Audit Committee is composed of the following directors:

John MacIntyre – Chair
John B. Newman
Peter Gordon
James Arthurs

All four members of the Audit Committee are independent and financially literate, based on their experience as executive officers of public and/or private companies and/or their experience in finance and/or as chartered accountants. See "*Directors and Officers*" for a description of the education and experience of each audit committee member that is relevant to the performance of his responsibilities as an audit committee member.

Pre-Approval Policies and Procedures of Non-Audit Services

The Audit Committee has adopted the following pre-approval policies:

- (a) Annually, the Audit Committee will review a list of audit, audit-related, tax and other non-audit services and recommend pre-approval of these services.
- (b) All additional requests to engage our auditor for other services will be addressed on a case-by-case specific engagement basis. Except as otherwise permitted by applicable law, the engagement may only commence upon approval by the Audit Committee.

External Auditor Service Fees

The aggregate fees billed for professional services rendered by our auditors, KPMG LLP to us and our Predecessor for the year ended December 31, 2004 and to us for the year ended December 31, 2005 are as follows:

	Year ended December 31, 2005	Period from July 28 to December 31, 2004	Period from January 1 to July 27, 2004
	Company	Company	Predecessor
KPMG LLP			
Audit fees:			
Audit of the consolidated financial statements	\$395,000	\$345,000	\$ -
Audit of the opening balance sheet at July 28, 2004	-	165,000	-
Quarterly reviews	89,650	20,000	38,500
Audit-Related Fees	349,450 ⁽²⁾	45,250 ⁽¹⁾	144,200 ⁽¹⁾
Total Audit and Audit-Related Fees	834,100	575,250	182,700
Tax Fees	368,800 ⁽³⁾	117,570 ⁽⁴⁾	416,818 ⁽⁴⁾
Monitor fees in CCAA	-	-	662,068
Internal control advisory fees	82,476	-	45,000
Forensic services	-	-	30,000
Pension Audits	15,000	-	-
Advisory – IT Performance	25,000	-	-
Total Fees	\$1,490,376	\$692,820	\$1,336,586

- (1) Audit-related fees for the current year consist principally of fees for professional services rendered with respect to the auditors involvement with the CCAA Information Circular and related accounting assistance, audits of defined pension plans, and advice and assistance related to accounting issues and new standards.
- (2) Of which \$155,325 is related to securities.
- (3) Tax fees consist of fees for tax compliance services and tax planning and structuring.
- (4) Tax fees consist of fees for tax compliance services, tax planning and tax restructuring associated primarily with the CCAA process.

LEGAL PROCEEDINGS

In the normal course of its business activities, we are subject to a number of claims and legal actions that may be made by customers, suppliers and others in respect of which either provision has been made or for which no material liability is expected.

A lumber broker for the Predecessor, commenced an action in New York in 2001 alleging that our Predecessor was in breach of U.S. anti-trust legislation. The court dismissed the complaint; however, the lumber broker is appealing the decision. Management believes the claim is without merit and will vigorously defend it.

Other than as disclosed elsewhere herein, we are not aware of any material legal proceedings to which we are a party or to which our property is subject, nor are we aware that any such proceedings are contemplated.

INTEREST OF MANAGEMENT AND OTHERS IN MATERIAL TRANSACTIONS

Except as otherwise disclosed herein, we are not aware of any material interest, direct or indirect, of any Shareholder that is a direct or indirect beneficial owner of, or who exercises control or direction over, more than 10% of the voting rights attached to the Common Shares, any of our or our subsidiaries' directors or executive officers, or any associate or affiliate of any of the foregoing, in any transaction which has been entered into within our most recent completed financial year or during the current financial year that has materially affected or will materially affect us.

As noted above, we entered into the BBLF Credit Agreement and the BBLF Facilities with BBLF and the Acquisition Agreement with BAM. BBLF and BAM are related to us by virtue of their voting arrangements with Tricap Management. As noted above, Tricap Management has the right to direct and control 20.05% of the Common Shares and holds approximately 138.2 million Subscription Receipts. We paid US\$300,000 to BAM on signing the term sheet for a commitment fee which will be applied against a 1% total commitment fee to be paid on drawdown of the debt financing.

TRANSFER AGENTS AND REGISTRARS

The registrar and transfer agent for our Common Shares is Computershare Investor Services Inc. at its principal office in Vancouver located at 3rd Floor, 510 Burrard Street, Vancouver, British Columbia, V6C 3B9.

The registrar and transfer agent for our Class C Warrants is Computershare Trust Company of Canada at its principal offices located at 3rd Floor, 510 Burrard Street, Vancouver, British Columbia, V6C 3B9 and 11th Floor, 100 University Avenue, Toronto, Ontario, M5J 2Y1.

The register of transfers for our:

- (a) Common Shares and Subscription Receipts are located at our Transfer Agent's principal office in Vancouver, British Columbia, and branch registers of transfer are located at our Transfer Agent's principal offices in Toronto, Ontario and Denver, Colorado; and
- (b) Class C Warrants is located at the Class C Warrant Trustees's principal offices in Vancouver, British Columbia and Toronto, Ontario.

MATERIAL CONTRACTS

Except for contracts entered into in the ordinary course of business or as otherwise disclosed herein, there are no other material contracts that we have entered into within the most recently completed financial year or before the most recently completed financial year (but after January 1, 2002) and still in effect.

The material contracts disclosed herein include the BBLF Facilities, Acquisition Agreement, Subscription Receipts Agreement and Fibre Supply Agreement.

INTEREST OF EXPERTS

Our auditors, KPMG LLP, have prepared the audit report attached to our audited financial statements for our most recent year end. To our knowledge, our auditors do not, directly or indirectly, hold any of our securities or have any interest in our property.

INFORMATION CONCERNING FORWARD-LOOKING STATEMENTS AND INFORMATION

This Annual Information Form contains statements which constitute forward-looking statements and forward-looking information within the meaning of applicable securities laws, including the *Securities Act* (Ontario) and the United States *Securities Exchange Act of 1934*. Those statements appear in a number of places in this document and include statements and information regarding our intent, belief or current expectations primarily with respect to market and general economic conditions, future costs, expenditures, available harvest levels and our future operating performance. Such statements and information may be indicated by words such as "estimate", "expect", "intend", "believes", and similar words and phrases. Readers are cautioned that any such forward-looking statements and information are not guarantees and may involve known and unknown risks and uncertainties, and that actual results may differ from those expressed or implied in the forward-looking statements or information as a result of various factors, including general economic and business conditions, product selling prices, raw material and operating costs, changes in foreign currency exchange rates, changes in government regulation, fluctuations in demand and supply for our products, industry production levels and our ability to execute our business plan and misjudgments in the course of preparing forward-looking statements or information. The information contained in this Annual Information Form, including, without limitation, the information set forth under the heading "*Business of the Company*" and "*Risk Factors*" and the information contained in our MD&A for the year ended December 31, 2005 identifies important factors that could cause such differences. All subsequent written and oral forward-looking statements and information attributable to us or persons acting on our behalf are expressly qualified in their entirety by such cautionary statements.

ADDITIONAL INFORMATION

Additional information, including directors' and officers' remuneration and indebtedness, principal holders of our securities, securities authorized for issuance under equity compensation plans and a statement as to the interest of insiders in material transactions, will be contained in our management information circular for our annual meeting of shareholders to be held later this year. Additional financial information is provided in our audited financial statements and MD&A for our most recent year end. The foregoing additional information is available on SEDAR at www.sedar.com under the Company name.

GLOSSARY OF CERTAIN TERMS

Certain terms used herein are defined below.

“AAC”	Allowable annual cut — the volume of timber which the holder of a tree farm license or forest license may harvest under the license in any given year as determined by the Ministry of Forests.
“ADMT”	Air dried metric tonne — a metric tonne of pulp with a moisture content of 10% or less.
“Acquisition”	Our acquisition of 100% of the outstanding common shares of Cascadia for aggregate cash consideration of approximately \$120 million plus an amount equal to Cascadia’s working capital, subject to adjustment as provided in the Acquisition Agreement.
“Acquisition Agreement”	The share purchase agreement dated as of November 10, 2005 between us and BAM regarding the Acquisition.
“annual cut”	The volume of timber which the holder of a timber license expects to harvest annually from that timber license.
“BAM”	Brookfield Asset Management Inc.
“BBLF”	Brookfield Bridge Lending Fund Inc.
“BBLF Facilities”	The U.S. Facility and the Canadian Facility, collectively, contemplated by the Bridge Lending Commitment.
“Board” or “Board of Directors”	The board of directors of Western.
“board feet”	The plural of board foot; a board foot is calculated by multiplying 1” x 12” x 12” = 1 foot board measure gross count. Lumber is then finished (planed/sanded) to a smaller size and sold based on the original gross count. The difference between gross size and net size is approximately 72%.
“Bridge Lending Commitment”	The committed term sheet dated November 10, 2005 between us and Tricap Management, pursuant to which Tricap Management or such other entity as may be designated by Tricap Management (which is expected to be BBLF) to be the lender will lend us a total of approximately \$305,000,000, subject to the terms and conditions set out therein.
“Canadian Facility”	A one year \$90 million term loan facility that Western entered into with BBLF.
“Canadian GAAP”	Canadian generally accepted accounting principles.
“Canadian Interests”	The Federal Government, other provincial governments of Canada and Canadian forest product companies.
“Canfor”	Canfor Corporation
“Cascadia”	Cascadia Forest Products Ltd.
“CBCA”	<i>Canada Business Corporations Act</i> , as amended.
“CCAA”	<i>Companies’ Creditors Arrangement Act</i> (Canada), as amended.
“CCFM”	Canadian Counsel of Forest Ministers.
“Centre”	Saanich Forest Centre.

"CEO"	Chief Executive Officer of Western.
"CIT"	CIT Business Credit Canada Inc.
"Class A and B Warrant Indenture"	The class A and B warrant indenture dated as of June 28, 2004 between Western and the Bank of New York.
"Class A and B Warrants"	The class A and B warrants of Western issued pursuant to the Class A and B Warrant Indenture in connection with the Plan.
"Class C Warrant Indenture"	The class C warrant indenture dated as of July 27, 2004 between Western and the Transfer Agent.
"Class C Warrants"	The class C warrants of Western, consisting of three tranches, Tranche 1, Tranche 2 and Tranche 3, issued pursuant to the Class C Warrant Indenture.
"Class C Warrant Trustee"	Computershare Trust Company of Canada.
"Closing Date"	The date we confirm to the Subscription Receipt Agent that the Exchange Conditions have been satisfied.
"COC"	CSA Chair of Custody.
"Common Shares"	The common shares of Western.
"Court"	The Supreme Court of British Columbia.
"CSA"	Canadian Standards Association.
"CVP"	Comparable Value Pricing.
"CVD"	Countervailing duties.
"DFPL"	4018940 Canada Inc. (formerly Doman Forest Products Limited).
"Doman"	Doman Industries Limited.
"DWL"	4018982 Canada Inc. (formerly Doman-Western Lumber Ltd.).
"ECC"	Extraordinary Challenge Committee.
"EMS"	Environmental Management Systems.
"Exchange Conditions"	Means (1) all necessary regulatory filings have been made, waiting periods have expired and approvals have been obtained to allow for both the Acquisition and the resulting level of ownership of us by Tricap Management or Tricap Group; (2) the closing date of the Acquisition shall have occurred; and (3) either the Secured Bonds shall have been redeemed or the conditions for legal defeasance shall have been satisfied.
"Exchange Limitation"	Means the provisions of the Subscription Receipt Agreement under which Western may, at its option, permit the exchange of only that portion of the Subscription Receipts held by a holder or group of holders such that such holder(s) would beneficially own, or exercise control or direction over, not more than 49% of the Common Shares then outstanding, with the balance of the Subscription Receipts held by such holder(s) being exchanged for non-voting shares as described in Rights Offering Prospectus under " <i>Non-Voting Shares</i> ".
"Federal Government"	The Federal Government of Canada.

"fibre"	The raw material used in the production of lumber and pulp consisting primarily of logs and wood chips.
"Fibre Supply Agreement"	Fibre supply agreement dated as of January 17, 2006 among Western, WPL, Coastal Fibre Limited Partnership and Howe Sound Pulp and Paper Limited Partnership.
"Forest Act"	The <i>Forest Act</i> (British Columbia), as amended.
"forest license" or "FL"	A license granted by the Ministry of Forests which entitles the holder to cut a specific volume of timber on government lands.
"Forest Investment Account" or "FIA"	A Provincial Government mechanism for promoting sustainable forest management in British Columbia through which the Minister of Forests may provide funding for certain forest management activities.
"Forest Renewal B.C."	A Provincial Government program whose mandate was to plan and implement a 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.
"FR Act"	<i>Forestry Revitalization Act</i> (British Columbia).
"FR Plan"	Forest Revitalization Plan.
"green"	Green is lumber that is not kiln-dried or air-dried.
"Guarantors"	Western's material subsidiaries.
"hectare"	An area 100 meters by 100 meters, equal to 2.47 acres.
"hog fuel"	Wood residue produced by a sawmill or a log merchandiser.
"Island Timberlands"	Island Timberlands Limited Partnership.
"ISO"	International Organization for Standardization.
"IWA Council"	IWA Council of the United Steelworkers Union.
"log merchandiser"	The Company's log merchandiser located in Nanaimo, British Columbia, which extracts the lumber portions of lower quality logs and processes the balance into wood chips.
"LRMP"	Land and Resource Management Plans.
"m ³ "	A cubic metre.
"MD&A"	Management's Discussion and Analysis.
"MPS"	Market Pricing System.
"Ministry of Forests"	The Ministry of Forests and Range of British Columbia.
"MMfbm"	One million board feet measure (see board feet).
"NAFTA"	The North American Free Trade Agreement.
"NBSK pulp"	Northern Bleached Softwood Kraft pulp, a high quality white chemical kraft pulp produced from slow growing northern softwood trees and differentiated from other grades of pulp by its fibre length and strength.

"Option Plan"	Western's incentive stock option plan.
"Partnership"	A newly formed partnership of Canfor and Oji Paper Canada Ltd.
"PASCI"	Port Alice Specialty Cellulose Inc., an affiliate of LaPointe Partners, Inc.
"Plan"	The plan of compromise and arrangement pursuant to the CCAA and reorganization pursuant to CBCA in respect of the Predecessor implemented on the Plan Implementation Date.
"Plan Implementation Date"	July 27, 2004.
"Plan Units"	Units consisting of U.S.\$1,000 principal amount of Secured Bonds and 29 Common Shares issued upon exercise of the Class A and B Warrants in accordance with the Plan.
"Port Alice Assets"	The Port Alice pulp mill and related assets of the Predecessor sold to PASCI by the Predecessor.
"PPWC"	Pulp, Paper and Woodworkers Union of Canada.
"Predecessor"	Doman, Alpine Projects Limited, Diamond Lumber Sales Limited, DFPL, 4019008 Canada Inc. (formerly Doman's Freightways Ltd.), 0183903 B.C. Ltd. (formerly Doman Holdings Limited), 4018966 Canada Inc., (formerly Doman Investments Limited), 4019016 Canada Inc. (formerly Doman Log Supply Ltd.), DWL, Eacom Timber Sales Ltd., WFPL, 4018974 Canada Inc. (formerly Western Pulp Inc.), WPLP and Quatsino Navigation Company Limited.
"Preferred Shares"	The preferred shares, issuable in series, of Western.
"Province" or "British Columbia"	The Province of British Columbia.
"Provincial Government" or "Crown"	The Provincial Government of British Columbia.
"Pulp Assets"	All of the pulp related businesses and assets of the Predecessor, excluding the Port Alice Assets.
"pulp segment"	The Company's pulp management, manufacturing and sales operations.
"Quatsino"	Quatsino First Nation of the Kwakiutl Nation.
"replaceable contract"	Replaceable contract under the Forest Act. An "evergreen" timber harvesting contract that is entered into between a holder of a replaceable license and a contractor, whereby, the contractor is obligated to perform one or more defined phases of timber harvesting within the license and, if satisfactorily performed, the license holder is obligated, prior to the expiry of the term of the contract, to offer the contractor a replacement contract on substantially the same terms and conditions as the contract being replaced.
"Rights Offering"	Western's offering by prospectus of rights to acquire Subscription Receipts exchangeable for Common Shares on the closing of the Acquisition.
"Rights Offering Prospectus"	Western's prospectus dated January 31, 2000 related to the offering of rights.
"Secured Bond"	The U.S.\$221 million of 15% senior secured notes due July 28, 2009 issued by Western and guaranteed by substantially all of its subsidiaries.
"Secured Bond Trustee"	Bank of New York, as trustee for the holders of the Secured Bonds.
"Seller"	Trilon Bancorp Inc., a wholly-owned subsidiary of BAM that is the current sole common shareholder of Cascadia.

"SFM"	Sustainable Forest Management
"Solid Wood Assets"	All of the businesses and assets of the Predecessor other than the Pulp Assets and the Port Alice Assets.
"solid wood segment"	The Company's sawmilling, lumber remanufacturing, lumber marketing, log merchandiser and logging operations.
"SPF 2x4 lumber"	2" x 4" kiln dried random lengths of spruce, pine and fir lumber, which is a North American commodity grade of standard and better dimensional lumber.
"Standby Agreement"	The Standby Purchase Agreement with Tricap Management dated as of November 10, 2005.
"Standby Commitment"	Tricap Management's obligation to purchase all of the Subscription Receipts not otherwise purchased pursuant to the Rights Offering.
"Standby Purchasers"	Tricap Management, certain mutual funds for which Merrill Lynch Investment Managers LP or its affiliates serves as investment adviser, certain funds for which Quadrangle Group LCC or its affiliates serves as adviser or manager and Amaranth LLC.
"Subscription Receipt Agent"	Computershare Trust Company of Canada.
"Subscription Receipt Agreement"	The subscription receipt agreement dated February 6, 2006 between Western and the Subscription Receipt Agent.
"Subscription Receipts"	The subscription receipts to be issued by the Company upon the exercise of Rights, in accordance with the Subscription Receipt Agreement, each of which Subscription Receipts will be exchangeable for Common Shares (or, in certain circumstances, non-voting shares as described in the Rights Offering Prospectus under " <i>Non-Voting Shares</i> ") as provided therein.
"sustained yield"	The yield that a forest can produce continuously (i.e. in perpetuity) at a given intensity of management without impairment of the land's productivity, with the intent that there will be a balance between timber growth and harvesting on a sustainable basis.
"TFL 37"	Tree Farm License 37.
"timber license" or "TL"	A license granted by the Ministry of Forests which entitles the holder to harvest the area over a specified period.
"timber supply areas" or "TSA"	The areas of Provincial Government timberland which are not designated as TFLs.
"tonne"	A metric tonne — 1,000 kilograms or 2,204.6 pounds.
"Transfer Agent"	Computershare Investor Services Inc.
"tree farm license" or "TFL"	A TFL is a replaceable timber tenure that requires the licensee to manage a specified area of timberland on a sustained yield basis. TFLs are granted for 25-year terms and, subject to satisfactory performance of its obligations under the TFL agreement by the licensee, are replaced by the Minister of Forests every five to 10 years with a new TFL with a 25-year term.
"Tricap"	The Tricap Restructuring Fund.
"Tricap Group"	Tricap Management and the co-investors in the Tricap Restructuring Fund.
"Tricap Management"	Tricap Management Limited.

"TSX"	The Toronto Stock Exchange.
"USDOC"	The United States Department of Commerce.
"USITC"	The United States International Trade Commission.
"unit"	Equals 200 cubic feet of wood chips.
"upper grade lumber"	A grade of lumber which is substantially clear of knots.
"U.S. Facility"	A four year U.S. \$187.5 million term loan facility that Western entered into with BBLF.
"Weyerhaeuser"	Weyerhaeuser Company Limited.
"Weyerhaeuser Assets"	Weyerhaeuser's former British Columbia coastal operations that were acquired by Cascadia and Island Timberlands under the Weyerhaeuser Purchase Agreement.
"Weyerhaeuser Purchase Agreement"	The asset purchase agreement dated February 17, 2005 between Weyerhaeuser and Coastal Acquisition Ltd., as amended by an amending agreement dated May 30, 2005 and assigned, in part, to Island Timberlands and in part to Cascadia.
"WFPL"	4018958 Canada Inc. (formerly Western Forest Products Limited).
"WPL"	Western Pulp Limited (formerly 4204255 Canada Inc.), a corporation incorporated pursuant to the CBCA, for the purpose of acquiring and holding the Pulp Assets.
"WPLP"	Western Pulp Limited Partnership.
"WPL"	Western Pulp Limited.
"wood chips"	Small pieces of wood used to make pulp. The wood chips are produced either from wood waste in a sawmill or a log merchandiser or from pulp wood cut specifically for this purpose. wood chips are generally uniform in size and are larger and coarser than sawdust.
"Working Capital Facility"	A secured revolving operating loan facility of up to Cdn \$100,000,000 under an agreement with CIT.
"WTO"	The World Trade Organization.

APPENDIX

WESTERN FOREST PRODUCTS INC.

AUDIT COMMITTEE CHARTER

1. Purpose

The Board of Directors (the "Board") of Western Forest Products Inc. (the "Corporation") has established an Audit Committee (the "Committee") to assist the Board in fulfilling its oversight responsibilities regarding:

- (a) the accuracy and completeness of the Corporation's financial statements;
- (b) the internal control and financial reporting systems of the Corporation;
- (c) the selection and activities of the Corporation's external auditor;
- (d) risk management;
- (e) the Corporation's compliance with legal and regulatory requirements, and
- (f) any additional duties set out in this Charter or otherwise delegated to the Committee by the Board.

2. Members

Committee members, including the Committee Chair, shall be appointed annually by the Board based on recommendations of the Nominating and Corporate Governance Committee and shall consist of at least three members of the Board who meet the independence requirements of Multilateral Instrument 52-110 - Audit Committees.

All members of the Committee shall be financially literate. While the Board shall determine the definition of and criteria for financial literacy, this shall, at a minimum, include the ability to read and understand a set of financial statements that present a breadth and level of complexity of accounting issues that are generally comparable to the breadth and complexity of the issues that can reasonably be expected to be raised by the Corporation's financial statements.

3. Duties

The Committee shall have the following duties:

- (a) Financial Reporting and Disclosure
 - (i) *Audited Annual Financial Statements:* Review the audited annual financial statements as prepared by management in conjunction with the external auditors, related management discussion and analysis ("MD&A") and earnings press releases for submission to Board for approval.
 - (ii) *Quarterly Review:* Review the unaudited quarterly financial statements, the related MD&A and earnings press releases for submission to the Board for approval.
 - (iii) *Significant Accounting Practices and Disclosure Issues:* Review with management and the external auditor, significant accounting practices employed by the Corporation and disclosure issues, including complex or unusual transactions, judgmental areas such reserves or estimates, significant changes to accounting principles, and alternative treatments under Canadian GAAP for material transactions. This review process shall be undertaken in order to have reasonable assurance that the financial statements are complete, do not contain any misrepresentations, and present fairly the Corporation's financial position and the results of its operations in accordance with Canadian GAAP.

- (iv) *Compliance:* Confirm through discussions with management and auditors whether Canadian GAAP and all applicable laws or regulations related to financial reporting and disclosure have been considered and obtain confirmations from management that Canadian GAAP and all such applicable laws have been complied with.
 - (v) *Legal Events:* Review any actual or anticipated litigation or other events, including tax assessments, which could have a material current or future affect on the Corporation's financial statements, and the manner in which these have been disclosed in the financial statements.
 - (vi) *Off-Balance Sheet Transactions:* Discuss with management the effect of any off-balance sheet transactions, arrangements, obligations and other relationships with unconsolidated entities or other persons that may have a material current or future affect on the Corporation's financial condition, changes in financial condition, results of operations, liquidity, capital expenditures, capital resources, or significant components or revenues and expenses.
 - (vii) *Disclosure Procedures:* Satisfy itself that adequate procedures are in place for the review of the Corporation's public disclosure of financial information extracted from the Corporation's financial statements and periodically assess the adequacy of those procedures.
- (b) Oversight of Internal Controls
- (i) *Review and Assessment:* Review the adequacy and effectiveness of the Corporation's system of internal control and management information systems through discussions with management and the external auditor.
 - (ii) *Oversight:* Oversee system of internal control, by:
 - Consulting with the external auditor regarding the adequacy of the Corporation's internal controls;
 - Monitoring policies and procedures for internal accounting, financial control and management information, electronic data control and computer security;
 - Obtaining from management adequate assurances that all statutory payments and withholdings have been made; and
 - Taking other actions as considered necessary.
 - (iii) *Fraud:* Oversee investigations of alleged fraud and illegality relating to the Corporation's finances and any resulting actions.
 - (iv) *Complaint:* Establish procedures for the receipt, retention and treatment of complaints received by the Corporation regarding accounting, internal accounting controls or auditing matters, the confidential, anonymous submission by employees of concerns regarding questionable accounting or auditing matters, and for the protection from retaliation of those who report such complaints in good faith.
- (c) External Audit
- (i) *Appointment or Replacement:* Recommend the appointment or replacement of the external auditor to the Board, who will consider the recommendation prior to submitting the nomination to the shareholders for their approval.
 - (ii) *Compensation:* Review with management, and make recommendations to the Board, regarding the compensation of the external auditor. In making a recommendation with respect to compensation, the Committee shall consider the number and nature of reports issued by the external auditor, the quality of internal controls, the size, complexity and financial condition of the Corporation, and the extent of other support provided by the Corporation to the external auditor.
 - (iii) *Reporting Relationships:* The external auditor will report directly to the Committee.

- (iv) *Performance*: Review with management the terms of the external auditor's engagement, accountability, experience, qualifications and performance. Evaluate the performance of the external auditor.
- (v) *Transition*: Review management's plans for an orderly transition to a new external auditor, if required.
- (vi) *Audit Plan*: Review the audit plan and scope of the external audit with the external auditor and management, and consider the nature and scope of the planned audit procedures.
- (vii) *Audit Plan Changes*: Discuss with the external auditor any significant changes required in the approach or scope of their audit plan, management's handling of any proposed adjustments identified by the external auditor, and any actions or inactions by management that limited or restricted the scope of their work.
- (viii) *Review of Results*: Review, independently from management and without management present, the results of the annual external audit, the audit report thereon and the auditor's review of the related MD&A, and discuss with the external auditor the quality (not just the acceptability) of accounting principles used, any alternative treatments of financial information that have been discussed with management, the ramifications of their use and the auditor's preferred treatment, and any other material communications with management.
- (ix) *Disagreements with Management*: Resolve any disagreements between management and the external auditor regarding financial reporting.
- (x) *Material Written Communications*: Review all other material written communications between the external auditor and management, including the post-audit management letter containing the recommendations of the external auditor, management's response and, subsequently, follow up identified weaknesses.
- (xi) *Interim Financial Statements*: Engage the external auditor to review all internal financial statements and review the results of the auditor's review of the interim financial statements and the auditor's review of the related MD&A independent of and without management present.
- (xii) *Other Audit Matters*: Review any other matters related to the external audit that are to be communicated to the Committee under generally accepted auditing standards or that relate to the external auditor.
- (xiii) *Meeting with External Auditor*: Meet with the external auditor independently from management and without management present (1) at least annually to discuss and review specific issues; and (2) as appropriate with respect to any significant matters that the auditor may wish to bring to the Committee for its consideration.
- (xiv) *Correspondence*: Review with management and the external auditor any correspondence with regulators or governmental agencies, employee complaints or published reports that raise material issues regarding the Corporation's financial statements or accounting policies.
- (xv) *Independence*: At least annually, and before the external auditor issues its report on the annual financial statements, review and confirm the independence of the external auditor through discussions with the auditor on their relationship with the Corporation, including details of all non-audit services provided. Consider the safeguards implemented by the external auditor to minimize any threats to their independence, and take action to eliminate all factors that might impair, or be perceived to impair, the independence of the external auditor. Consider the number of years the lead audit partner has been assigned to the Corporation, and consider whether it is appropriate to recommend to the Board a policy of rotating the lead audit partner more frequently than every five years, as is required under the rules of the Canadian Public Accountability Board.
- (xvi) *Non-Audit/Audit Services*: Pre-approve, in accordance with applicable law, any non-audit services to be provided to the Corporation by the external auditor, with reference to compatibility of the service with the external auditor's independence.

(xvii) *Hiring Policies:* Review and approve the Corporation's hiring policies regarding partners, employees and former partners and employees of the present and former external auditor.

(d) Risk Management

Review and assess the adequacy of the Corporation's risk management policies and procedures with respect to the Corporation's principal business risks. Review and assess the adequacy of the implementation of appropriate systems to mitigate and manage the risks, and report regularly to the Board. Review the Corporation's insurance program.

(e) Regulatory Compliance

Review with management the Corporation's relationship with regulators and the timeliness and accuracy of Corporation filings with regulatory authorities.

(f) Related Party Transactions

Review with management all related party transactions and the development of policies and procedures related to those transactions.

(g) Board Relationship and Reporting

(i) Adequacy of Charter: Review and assess the adequacy of the Committee Charter annually and submit such amendments as the Committee proposes to the Board.

(ii) Disclosure: Oversee appropriate disclosure of the Committee's Charter, and other information required to be disclosed by applicable legislation, in the Corporation's Annual Information Form and all other applicable disclosure documents, including any management information circular distributed in connection with the solicitation of proxies from the Corporation's securityholders.

(iii) Reporting: Report regularly to the Board on Committee activities, issues and related recommendations.

4. **Chair**

The Board will in each year appoint the Chair of the Committee. The Chair shall be financially literate. In the Chair's absence, or if the position is vacant, the Committee may select another member as Chair. The Chair will have the right to exercise all powers of the Committee between meetings but will attempt to involve all other members as appropriate prior to the exercise of any powers and will, in any event, advise all other members of any decisions made or powers exercised.

5. **Meetings**

The Committee shall meet at the request of its Chair, but in any event it will meet at least four times a year. Notices calling meetings shall be sent to all Committee members. The external auditor or any member of the Committee may call a meeting of the Committee. The Chair of the Committee shall develop and set the Committee's agenda, in consultation with the other members of the Committee. Each member of the Committee is free to suggest the inclusion of items on the agenda. The agenda and information concerning the business to be conducted at each Committee meeting shall be distributed to the members of the Committee in advance of each meeting to permit meaningful review.

6. **Quorum**

A majority of members of the Committee, present in person, by teleconference, or by videoconference will constitute a quorum.

7. **Removal and Vacancy**

A member may resign from the Committee, and may be removed and replaced at any time by the Board, and will automatically cease to be a member as soon as the member ceases to be a director. The Board will fill vacancies in the Committee by appointment from among the directors of the Board in accordance with Section 2 of this

Charter. Subject to quorum requirements, if a vacancy exists on the Committee, the remaining members will exercise all its powers.

8. **Experts and Advisors**

In order to carry out its duties, the Committee may retain or appoint, at the Corporation's expense, such independent counsel and other experts and advisors as it deems necessary. The Committee shall provide notice to the Nominating and Corporate Governance Committee of its actions in this regard.

9. **Access**

The Committee may have access to and direct contact with any employee, contractor, supplier, customer or other person that is engaged in any business relationship with the Corporation to confirm information or to investigate any matter within the mandate of the Committee.

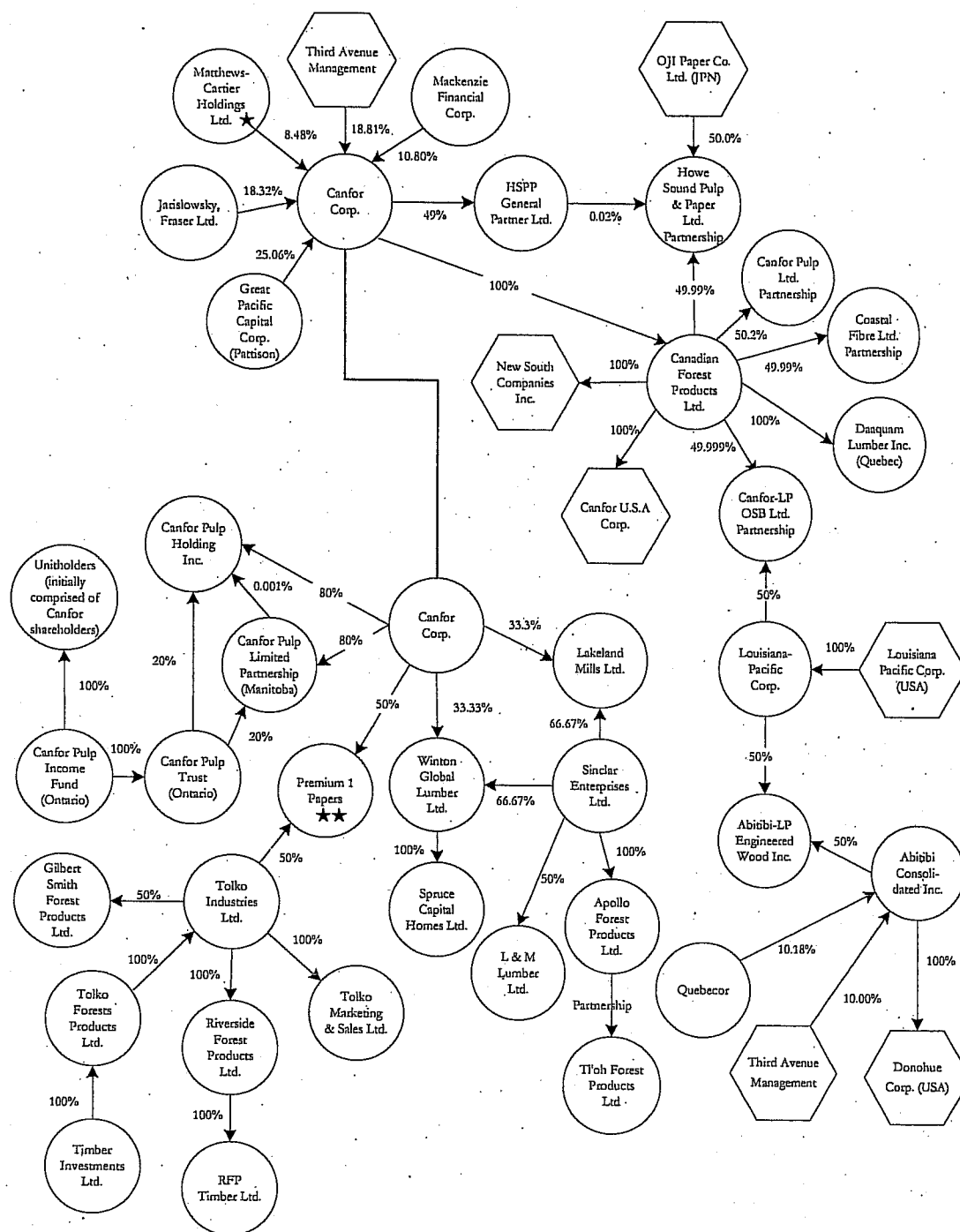
10. **Secretary and Minutes**

The Chair of the Committee shall appoint a secretary for each meeting to keep minutes of such meeting. The minutes of the Committee will be in writing and duly entered into the books of the Corporation. The minutes of the Committee will be circulated to all members of the Board.

Dated as of May 6, 2005

Appendix D

Ownership and Inter-Corporate Linkages of Selected Forest Companies in British Columbia



- ★ A holding company controlled by the company's founding Bendley and Prentice families.
- ★ ★ Jointly owned on sales and marketing partnership: The Premium 1 Papers markets bleached and unbleached Kraft paper products from Canfor's Prince George, BC mill and Tolko's Kraft Papers mill in The Pas, MB.

- Indicates corporate or administrative operations outside of Canada
- Indicates corporate or administrative operation within Canada

The presented linkages are based on the information that was publicly available in March 2007.

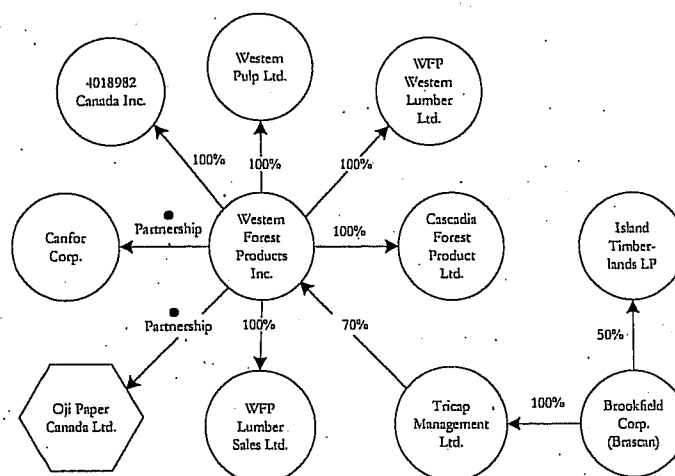
Sources: Corporate annual information forms, annual and quarterly reports, and other public issues accessed through company websites and www.sedar.com

The information presented here has been gathered from public sources and is, to the best of our knowledge, accurate. This information is presented solely as an outline of the general structure of the BC forest products industry and should only be used as such.

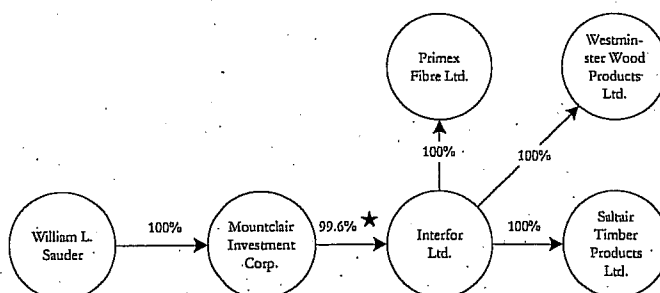
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ForestEconomicsAndTradeBranchOffice@gov.bc.ca

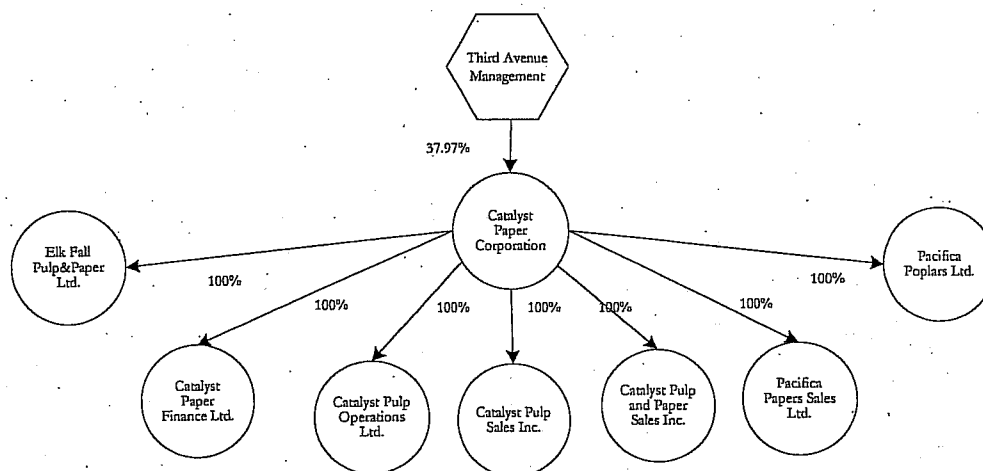
Ownership and Inter-Corporate Linkages of Selected Forest Companies in British Columbia



● On March 17, 2006, WFP executed a 40 year fibre supply agreement with the Partnership.



★ Additionally to the 99.6 % of Class B common shares Mountclair Investment Corp. has also 2.4 % of Class A subordinate voting shares. CCM Master Qualified Fund Ltd. (managed by Coghill Capital Management LLC) holds 12.48% of Class A subordinate voting shares and Howson Tattersall Investment Counsel Ltd. Holds 10.59 % of Class A subordinate voting shares.



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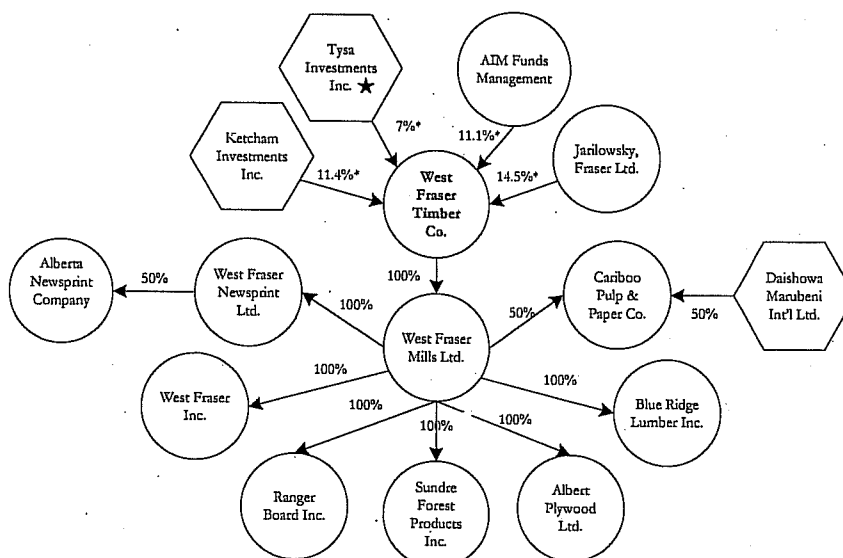
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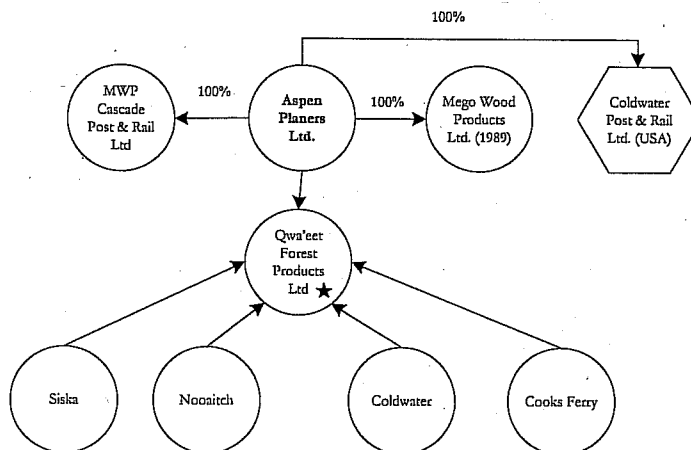
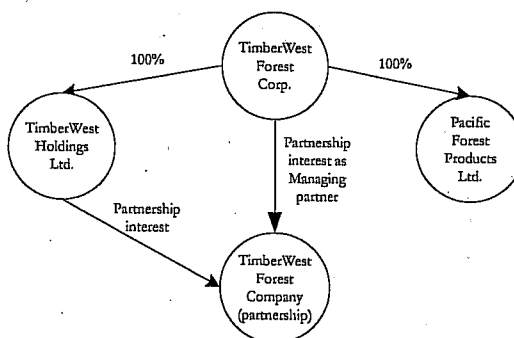
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Ownership and Inter-Corporate Linkages of Selected Forest Companies in British Columbia



★ Controlled by William P. Ketcham * % of total votes



★ Aspen is also a joint venture partner with First Nation Bands: Cooks Ferry, Coldwater, Noonatch, and Siska. This consortium holds a replaceable Forest License under the company Qwa'tet Forest Products Ltd.

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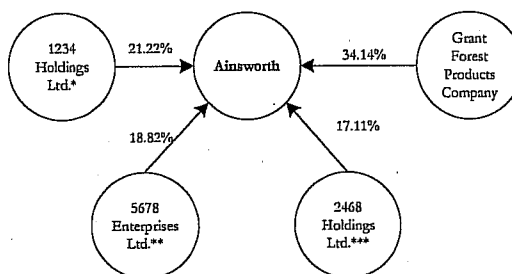
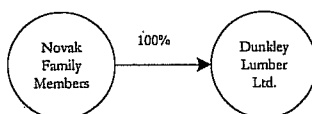
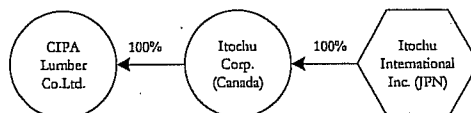
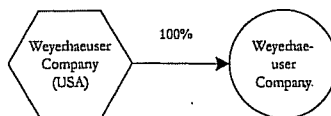
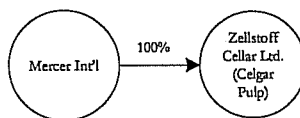
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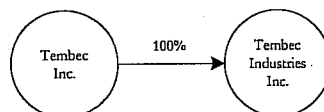
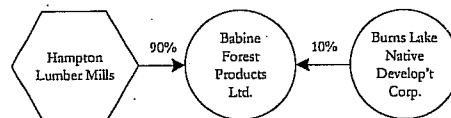
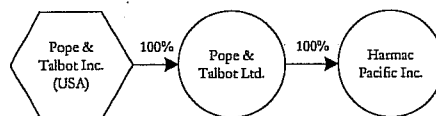
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Ownership and Inter-Corporate Linkages of Selected Forest Companies in British Columbia



* 96 % owned by David Ainsworth and 4 % by Catherine Ainsworth. ** 98 % owned by D. Allen Ainsworth. *** 95 % owned by Brian E. Ainsworth.



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