



MADISON'S TIMBER PREVIEW

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On August 07, 2008 Madison's first examined TimberWest Forest Corp's (TW) financials, prior to company share prices tanking from \$14.09 that week to \$3.19 on November 21. Share prices have struggled since, to close at \$5.03 on Thursday. Refer to that issue of your Madison's Timber Preview for historical reference. Obviously the bad news coming out of TW's 2Q conference call on August 15, 2008 did not please investors. The company ended the quarter with \$211.9 million of debt, \$6.9 million higher than at the end of 1Q. In that quarter the company reported a loss of \$18.9 million on sales of \$57 million, compared to a loss of \$4.7 million on sales of \$82 million for the same time period in 2007. The company also announced a \$150 million placement and rights offering that it would use to reduce debt.

A \$3 million loss due to the demise of Bill 13, taking with it TW's rights to harvest public land, and further restructuring costs of \$4.5 million to be realized in 4Q 2008, likely sent shareholders' moods into darkness. A November 14, 2008 announcement that the company would be deferring its quarterly distribution of \$1.08 per unit for at least 27 months, with a possible further 18 month extension, and cutting it to \$0.18 probably did nothing to comfort shareholders'.

Through the last few years of austerity, and during the worst time financial times in history for the North American lumber industry, TW embarked on an ambitious plan to divest itself of its valuable timberland through a real estate entity called Couverdon. It seems people don't understand this new business model, because the potential revenue for TW in the long term is obvious. It is likely that Western Forest Products' (WFP) efforts to sell off prime beachfront real estate on the east coast of Vancouver Island in mid-2007, sending the community into an absolute uproar, tainted TW's own land sale efforts. After much turmoil, confusion and failed development bids, those disputed WFP lands are now being bought by the Victoria, BC, Capital Regional District. Remaining WFP parcels suitable for development are still on the market.

Ironically it is the sale of a sizable chunk of WFP's land to TW Wednesday that helped prop up TW share prices this week.

The company signed a deal to buy 7,678 hectares (809,973 acres) of private timberland on southern Vancouver Island from WFP for \$21.9 million. TW said the deal will increase the company's total land holdings to 327,678 hectares on Vancouver Island.

TW is Western Canada's largest private timber and land management company. Some of these lands have been carefully parcelled out to maximize sale prices. Individual plots between 7.7 hectares and 748 hectares are currently sprinkled throughout TW's holdings. When the real estate plan was first launched, the company held extensive public meetings with communities on Vancouver Island seeking input and concerns. Only after taking all aspects into account did TW's current marketing strategy come into play.

TW is planning to log, not develop, the land from this recent purchase from WFP.

"It is certainly highly productive forest land," said TimberWest spokeswoman Sue Handel to the *Victoria Times Colonist*. "It's a good age class and species mix and a great complement to our existing private-managed forest lands, so we don't have plans to manage it for real estate."

Handel said the cut timber will be split between Vancouver Island mills and raw log exports.

Mike Hicks, Juan de Fuca Electoral Area regional director said, "They're going to log it in an appropriate way and that's what the land is there for. I hope this will put people back to work."

Members of Couverdon, TW's real estate arm, visited Ladysmith, BC, town council February 7 to present their ideas for a 270 hectare boundary extension to the northwest side of town, according to the *Ladysmith Chronicle*. Under the proposal, Couverdon is trying to bring the parcel of land from the Capital Regional District into Ladysmith's fold so any rezoning for development would go through the town's purview. Looking 20 to 25 years ahead, Couverdon planning consultant James Miner said the properties could accommodate a further 2,500 residents.

"Then we would just go through a rezoning process with the city ... to figure out what the best use for the land would be," said Bev Park, president and CEO of Couverdon to the *Chronicle*.

Park noted that Couverdon is in the process of undergoing a rezoning for their Jubilee Heights project in Campbell River. The company is continuing with its previously announced objective to look at its lands and try to find the highest-value of use for its properties.

Ladysmith City manager Ruth Malli said council has to be onboard with the expansion, but it must also get approval from the province. Indications are that the Township is keen on the idea, amid touchy discussion regarding a watershed on the land but not included in the rezoning proposal.

Park said to the *Chronicle* if this process goes well, they may consider doing it with more of TimberWest's land around Ladysmith.

This is a company that considers the scope of its plans carefully, takes into consideration the input of communities, and most importantly sees the value of its assets, not just in coming quarters but in 10 year blocks of time. TW learned hard lessons in 2001 after selling large volumes of raw logs, specifically high value Douglas fir and cedar, and now having nothing to show for it. A short-term boost to the bottom line through overly ambitious log exports does not serve a forest company well, TW learned the hard way 20 years ago.

As if the above didn't account for enough movement by TW all at once, the company announced 4Q 2010 results late Thursday. During 2010 TimberWest delivered four consecutive quarters of positive earning, of \$21.2 million in total, with \$216.8 million coming from log sales and \$14.2 million in real estate sales. This is compared to a \$7.3 million loss in 2009.

"Strong economic growth in China and Korea, improved market access, and a decline in Russian log supply, has provided a profitable and sustainable platform for TimberWest. 2010 marks the first year when more than half of the Company's log sales volumes were into international markets. The Company ended the year with improved liquidity and a stronger balance sheet with net debt at \$103 million, an improvement of \$47.8 million from 2009," said a company press release.

With the acquisition of the WFP land, situated in proximity to curtailed or idled TW sawmills, the picture can only get more rosy as 2011 proceeds. Expect the quarterly distribution to resume, even if only \$0.18 per share, in the coming months. Lumber prices are pegged to rise this year and next, and TW's fibre mix positions the company to capitalize on increasing demand from both Asia and the US.

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