



TIMBERWEST FOREST CORP.

For immediate release: February 12, 2009

TIMBERWEST ANNOUNCES 2008 FOURTH QUARTER RESULTS

Vancouver (BC) – “By all accounts 2008 was the most difficult year in our history,” said Paul McElligott, President and CEO of TimberWest Forest Corp. “As a result of the US housing downturn sales revenues were under continuous pressure throughout the year. The Company had many challenging restructuring decisions to make in the business and ended the year in the eye of the financial storm needing to refinance under considerable duress. As we had previously disclosed, we were going to breach a covenant under our credit agreements at the end of the calendar year. Having explored a number of alternatives to solve our liquidity issues, we were in the midst of executing a refinancing solution when the credit markets collapsed. As such, we were left with only one viable option to raise additional capital through a \$150 million convertible debenture offering which closed on February 11, 2009 and has allowed us to pay down senior debt and renegotiate our credit facilities.”

“We did not go to this solution easily as it was dilutive, but we believe that we have acted in the best interests of the Company and are now on a stable footing to weather this downturn and excel on the other side of it,” said Mr. McElligott. “The fact that two wholly-owned subsidiaries of British Columbia Investment Management Corporation (the “bcIMC Investors”) have made such a significant investment in our business is very positive. They are significant British Columbia based investors who share our long term vision for timberland and real estate on Vancouver Island. This is further demonstrated by their nomination of the Honorable David Emerson to our Board.”

Financial Highlights

In spite of low revenues, all of the cost reduction and business model changes that we have undertaken over the years, including this year, have meant that we are well-positioned for the future. While we did use our operating line this year to pay distributions, the business generated enough cash to cover its fixed costs and all the restructuring costs. As a largely variable cost business today, we are better able to reduce sales activity levels, let the trees grow, and entitle land while keeping the balance sheet strong. To underscore this point, we have taken this business from a high cost operating company with over 1,400 employees in the timber, logging and sawmilling business to a low cost timber and land management company of 88 employees.

TimberWest generated a distributable cash loss of \$11.4 million or (\$0.15) per unit for the fourth quarter of 2008 compared to \$55.4 million of distributable cash or \$0.71 per unit for the same quarter in 2007. For the year ended December 31, 2008 the Company generated a distributable cash loss of \$24.8 million or (\$0.32) per unit compared to \$90.3 million of distributable cash or \$1.16 per unit for the year ended December 31, 2007.

Included in the distributable cash loss for the quarter are restructuring costs of \$4.4 million associated with the settlement of the United Steelworkers agreement and the salaried workforce reduction. As well, the quarterly results include \$2.0 million of costs associated with modifying the subordinated note component of the Stapled Units and refinancing the debt. The distributable cash results for the fourth quarter of 2007 include the sale of the Leech Creek lands to the Capital Regional District for \$64.7 million.

On a year-to-date basis in 2008, if all of the one-time restructuring and refinancing costs are excluded, the distributable cash loss would have been \$7.7 million or (\$0.10) per unit. Likewise, if the Leech Creek sale had been excluded from the 2007 results, distributable cash would have been \$25.6 million or \$0.33 per unit.

Operating Highlights

Our timberland sales revenues have diminished from our five-year average of \$311.0 million to this year's low of \$147.4 million. Our sales realizations are down more than \$21 per m³ or 22% from our five-year average and our annual sales volumes are down by almost 40% from our five-year average annual sales volumes. Private land harvest volumes were only 1.6 million m³, our lowest private land harvest on record. We ended the year with average annual sales realizations of \$76 per m³ and sales volumes of 1.9 million m³. Production costs averaged \$67 per m³ this year, which includes fixed costs associated with the operations. We are pleased with our unit cost results in light of the material reduction in volume the Company has experienced.



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On the real estate side of the business, the Company achieved sales of \$0.3 million for the fourth quarter and \$11.8 million for the year. It is worth noting that these gross as-is sales averaged \$10,100 per acre for the year representing a significant lift over timberland values. 2008 was largely devoted to staffing up, establishing reporting systems, acquiring a better understanding of our real estate portfolio, and finalizing plans for the future. The transactions we completed in 2008 benefited communities and provided job creation opportunities. Whether it was enabling a farm to grow in size or providing additional land for First Nations' housing, we were able to generate benefits for Vancouver Island residents.

Some progress was realized on the entitlement front in 2008. 200 hectares of land next to the Campbell River airport were successfully rezoned industrial, significantly increasing its potential value. We also filed a proposal for a small scale agricultural development of 166 hectares just south of Courtenay in the Comox Valley. In addition, we participated in the town of Ladysmith's "visioning" process during 2008, which was implemented to help define the future growth and development of that community. All of these initiatives have received very positive community feedback.

Safety

The Company's safety record was excellent in 2008 with a 35% year-over-year improvement in our Medical Incident Rating (MIR). At year end we achieved our SAFE certification goal with 100% of our timberlands contractors SAFE certified. We are an industry leader in accomplishing this and our timberlands staff have done a terrific job getting this level of certification in place. We are heading into 2009 with further safety improvements planned and an even tougher MIR goal. As a result of these safety improvements, we have also reduced our WorkSafeBC costs with a 43% improvement in our rate which translates into approximately \$100,000 of annual savings. All of TimberWest's employees and contractors are to be commended for their continued focus on safety and for their impressive accomplishments in 2008.

United Steelworkers Settlement

Late in December, TimberWest concluded a new eight-year labour agreement with the United Steelworkers Union (USW) Local 1-80 and Local 1-363, ending a strike that had been in effect since the summer of 2007. Ratification of the contract was completed in early January 2009.

We are very pleased that TimberWest and the USW were able to agree on a new contractor model that will allow for more mid-sized long term contractors, which will place TimberWest on a more stable footing with its competitors in this very difficult time in the industry.

The final agreement contains several key features:

- The new contractor model allows the company to sub-divide operations and employ medium sized unionized contractors on its land base,
- The subdivided contracts will be for five year terms, with annual price reviews,
- A signing bonus for qualified contractor employees and qualified engineers and foresters,
- The agreement recognizes that TimberWest is no longer an operating company,
- All outstanding grievances, including the defamation law suit between TimberWest and the USW have been resolved, and
- The company will no longer have unionized employees once sub-division is fully implemented.

TimberWest believes this agreement provides a more manageable, cost-effective, and viable system for timber harvesting on its land base. At the same time, it will continue to protect the rights of the United Steelworkers for harvesting jobs, create the opportunity for more operators to enter the marketplace, and maintain a high standard of environmental and safety performance.

Capital Structure

On December 19, 2008, the Company held a Special meeting of its unitholders to consider amendments to the Series A Subordinate Note component of the Stapled Units. The Company received unitholder approval at the meeting and lender approval on the same day to implement these modifications. The key change was the



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replacement of the fixed interest rate of 12% with a 2 – 12% variable interest rate on the notes. This modification allows the Company to better match its distributions with its cash flows, particularly during this downturn.

Outlook

We have started 2009 with no improvement in our end markets and do not expect a major turnaround to get underway in 2009. Forecasters continue to have a difficult time predicting exactly when housing demand will recover in the US but most believe it will be sometime in 2010 at the earliest. As a result of the global economic downturn, our Asian markets could also experience reduced demand for logs in the coming year.

In 2009 we expect to improve our real estate marketing and increase our sales support on Vancouver Island. We also expect to progress our entitlement discussions with several communities. We are committed to growing a distinctive and focused real estate business able to build a strong client base. To that end, we have decided to give the business unit a separate name to reflect its differences from TimberWest's forestry operations but maintain its deep roots and commitment to Vancouver Island. The name we have chosen is Couverdon, derived from the city in the Netherlands from which the ancestors of Captain George Vancouver originated. We launched this brand last week and look forward to this division's increasing success.

"Looking beyond the immediate market challenges, we expect to see demand and pricing for log and lumber products in our region improve when housing activity returns to more normal levels," said Mr. McElligott. "This view is based upon our assessment of the positive demographics in the US for housing; our expectations regarding continuing growth in demand for wood products in Asia; the impact of the inevitable future supply shortages caused by the mountain pine beetle infestation in western Canada; further harvest reductions in eastern Canada and the expected escalating Russian log export taxes. When margins improve, we will increase our harvest."

We also continue to believe that our real estate strategy is the right long term one for unitholders. Planning and zoning will enhance real estate values significantly on our development lands and over time raise the value of our entire portfolio. Our efforts in this area will help communities achieve sustainable development that brings with it jobs, homes, new infrastructure and recreational opportunities for generations to come.

As previously disclosed, we have set the interest on the Series A Subordinate Notes for 2009 at 2% or \$0.18 per Stapled Unit. We are not paying those distributions in cash, but rather are deferring them for 2009. We have the ability to defer these distributions for 18 months and as we get visibility on the recovery and see improvements in our business, the Company's intention is to pay the deferred distributions and resume paying distributions at a level that we believe can be supported by the level of distributable cash being generated. The Board's view on distribution policy has not changed and it is the Company's intention to continue to distribute all of its available cash while maintaining a strong balance sheet.

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Management's Discussion and Analysis

For the three and twelve months ended December 31, 2008 and 2007

Management's Discussion and Analysis supplements, but does not form part of, the unaudited interim consolidated financial statements of TimberWest Forest Corp. ("TimberWest" or "the Company") and the notes thereto for the fourth quarter of 2008. This discussion and analysis provides an overview of significant developments that have affected TimberWest's performance during the fourth quarter and year to date 2008 relative to the fourth quarter and year to date of 2007, and that have affected the Company's financial position as at December 31, 2008, relative to December 31, 2007. Factors that could affect future operations are also discussed. These factors may be affected by known and unknown risks and uncertainties that may cause the actual future results of the Company to be materially different than those expressed or implied in this discussion. These risks and uncertainties are described herein and in the Management's Discussion and Analysis contained in the Company's 2007 Annual Report.

TimberWest's unaudited interim consolidated financial statements and the accompanying notes included within this interim report include the accounts of TimberWest Forest Corp. and its subsidiaries. The unaudited interim consolidated financial statements and the accompanying notes are prepared in accordance with Canadian generally accepted accounting principles (GAAP) and are expressed in Canadian dollars.

This Management's Discussion and Analysis has been prepared based on information available as at February 12, 2009.

Additional information relating to TimberWest, including the Company's most recent Annual Information Form and other statutory reports, can be found on the System for Electronic Document Analysis and Retrieval (SEDAR) at <http://www.sedar.com>.

Distributable Cash

<i>(in millions of dollars)</i>	Three months ended December 31		Twelve months ended December 31	
	2008	2007	2008	2007
Net earnings (loss) from continuing operations	\$ 312.3	\$ 14.8	\$ 240.7	\$ (13.3)
Interest on Series A Subordinate Notes owned by unitholders	17.8	21.0	80.8	83.7
Earnings from continuing operations available for distribution	330.1	35.8	321.5	70.4
Gain on modification of Series A Subordinate Notes	(461.6)	-	(461.6)	-
Future income tax expense (recovery)	120.3	(18.7)	114.5	(22.1)
Earnings (loss) from continuing operations available for distribution before provision for future income taxes, and gain on modification of Series A Subordinate Notes	(11.2)	17.1	(25.6)	48.3
Add (deduct):				
Depreciation, depletion and amortization	1.1	1.1	4.8	6.3
Proceeds from sale of property, plant and equipment	0.8	65.1	11.5	71.9
Gain on sale of property, plant and equipment	(0.3)	(22.3)	(5.5)	(28.5)
Additions to property, plant and equipment	(0.4)	(1.2)	(2.1)	(3.4)
Financing costs	(2.0)	-	(2.0)	-
Other non-cash items	0.6	(3.5)	1.8	(1.6)
	(0.2)	39.2	8.5	44.7
Distributable cash from continuing operations ¹	\$ (11.4)	\$ 56.3	\$ (17.1)	\$ 93.0
Distributable cash from discontinued operations	-	(0.9)	(7.7)	(2.7)
Distributable cash	\$ (11.4)	\$ 55.4	\$ (24.8)	\$ 90.3

¹ The Company permanently closed its Elk Falls sawmill operations on May 9, 2008. These operations have been classified as discontinued operations and prior period financial statements have been restated.

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Per Stapled Unit amounts: (in dollars)	Three months ended December 31		Twelve months ended December 31	
	2008	2007	2008	2007
<i>Basic and diluted earnings (loss) from continuing operations available for distribution before provision for future income taxes and gain on modification of Series A Subordinate Notes per weighted average Stapled Unit</i>	\$ (0.14)	\$ 0.22	\$ (0.33)	\$ 0.62
<i>Basic and diluted distributable cash from continuing operations per weighted average Stapled Unit</i>	(0.15)	0.72	(0.22)	1.20
<i>Basic and diluted distributable cash from discontinued operations per weighted average Stapled Unit</i>	-	(0.01)	(0.10)	(0.04)
<i>Basic and diluted distributable cash per weighted average Stapled Unit</i>	\$ (0.15)	\$ 0.71	\$ (0.32)	\$ 1.16
<i>Cash distributions paid per Stapled Unit</i>	\$ 0.27	\$ 0.27	\$ 1.08	\$ 1.08

The following table provides a reconciliation of cash flow from operations to distributable cash:

(in millions of dollars)	Three months ended December 31		Twelve months ended December 31	
	2008	2007	2008	2007
Cash used in continuing operations	\$ (30.4)	\$ (22.1)	\$ (94.4)	\$ (68.7)
Add (deduct):				
Change in non-cash working capital	(0.2)	(6.1)	(13.7)	9.3
Interest on Series A Subordinate Notes owned by unitholders	17.8	21.0	80.8	83.7
Proceeds from sale of property, plant and equipment	0.8	65.1	11.5	71.9
Additions to property, plant and equipment	(0.4)	(1.2)	(2.1)	(3.4)
Financing costs	(2.0)	-	(2.0)	-
Other non-cash items	3.0	(0.4)	2.8	0.2
	19.0	78.4	77.3	161.7
Distributable cash from continuing operations	(11.4)	56.3	(17.1)	93.0
Distributable cash from discontinued operations	-	(0.9)	(7.7)	(2.7)
Distributable cash	\$ (11.4)	\$ 55.4	\$ (24.8)	\$ 90.3

Distributable cash includes consolidated net earnings (loss), plus interest expensed on Series A Subordinate Notes owned by unitholders, plus non-cash income taxes, plus depreciation, depletion and amortization, plus proceeds from the sale of property, plant and equipment net of their gain (loss) on sale, less additions to property, plant and equipment, less financing fees and, from time to time, adjustments for other items deemed appropriate by the Board of Directors. Earnings from continuing operations available for distribution is comprised of consolidated net earnings (loss) from continuing operations plus interest expensed on Series A Subordinate Notes. The Series A Subordinate Notes are owned by the unitholders and interest thereon is paid to the unitholders, therefore, earnings from continuing operations available for distribution to unitholders reflects earnings before this interest charge.

Earnings from continuing operations available for distribution and distributable cash are measures that do not have a standardized meaning prescribed by GAAP and may not be comparable to similar measures presented by other companies. Management believes that the presentation of these measures will enhance an investor's understanding of the Company's operating performance. Reconciliations of net earnings (loss) and cash flow from

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continuing operations before changes in working capital, as determined in accordance with GAAP, and earnings from continuing operations available for distribution and distributable cash are provided in the preceding tables.

The following tables present a quarterly comparison of distributable cash generated, in total and on a per Stapled Unit basis:

	2008	2007	2006	2005	2004	2003
Distributable Cash						
<i>(in millions of dollars)</i>						
First quarter	\$ (3.9)	\$ 26.9	\$ 31.5	\$ 23.9	\$ 27.7	\$ 25.7
Second quarter	(3.2)	13.6	35.5	15.4	43.5	4.7
Third quarter	(6.3)	(5.6)	9.3	(1.7)	35.9	12.0
Fourth quarter	(11.4)	55.4	27.5	29.7	18.1	9.0
	\$ (24.8)	\$ 90.3	\$ 103.8	\$ 67.3	\$ 125.2	\$ 51.4
Distributable Cash per Stapled Unit²						
<i>(in dollars)</i>						
First quarter	\$ (0.05)	\$ 0.35	\$ 0.41	\$ 0.31	\$ 0.36	\$ 0.34
Second quarter	(0.04)	0.17	0.46	0.20	0.57	0.06
Third quarter	(0.08)	(0.07)	0.12	(0.02)	0.47	0.15
Fourth quarter	(0.15)	0.71	0.35	0.38	0.24	0.12
	\$ (0.32)	\$ 1.16	\$ 1.34	\$ 0.87	\$ 1.64	\$ 0.67

² Per Stapled Unit amounts by quarter do not necessarily add to the total of the year and year-to-date due to changes in the weighted average number of Stapled Units outstanding during the year.

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Financial Highlights

<i>(in millions of dollars)</i>	Three months ended December 31		Twelve months ended December 31	
	2008	2007	2008	2007
Sales	\$ 35.9	\$ 96.5	\$ 163.7	\$ 318.4
Operating earnings (loss) from continuing operations	(8.6)	20.6	(14.9)	57.5
Operating earnings (loss) from continuing operations - % of sales	(24.0)%	21.3%	(9.1)%	18.1%
Earnings (loss) before interest, taxes, depreciation and amortization ³ from continuing operations	(7.5)	21.7	(10.6)	69.4
Earnings (loss) before interest, taxes, depreciation and amortization from continuing operations per basic and diluted weighted average Stapled Unit ³	(0.10)	0.28	(0.14)	0.89
Earnings (loss) before interest, taxes, depreciation and amortization ³ from discontinued operations	2.3	(19.3)	(5.4)	(21.1)
Earnings (loss) before interest, taxes, depreciation and amortization from discontinued operations per basic and diluted weighted average Stapled Unit ³	0.03	(0.25)	(0.07)	(0.27)
Earnings (loss) before interest, taxes, depreciation and amortization ³	(5.2)	2.4	(16.0)	48.3
Earnings (loss) before interest, taxes, depreciation and amortization per basic and diluted weighted average Stapled Unit ³	(0.07)	0.03	(0.21)	0.62
Distributable cash	\$ (11.4)	\$ 55.4	\$ (24.8)	\$ 90.3

Sales revenues for the three months ended December 31, 2008 were down compared to the fourth quarter of 2007. The decline in sales revenues year over year is a result of significantly lower real estate sales in the fourth quarter of 2008 compared to 2007, combined with lower log sales revenues resulting from a steep reduction in average log sales realizations of \$19 per m³. In the fourth quarter of 2007, the Leech Creek conservation land sale accounted for 67% of sales in that quarter. Similarly, sales for year ended December 31, 2008 compared to 2007 were lower for the same factors.

Highlights and Significant Transactions

Adoption of New Accounting Policies

During the first quarter, the Company adopted new accounting policies and disclosure requirements issued by the Canadian Institute of Chartered Accountants ("CICA"). TimberWest changed its policy of accounting for inventories and adopted enhanced disclosure requirements for inventories, financial instruments, capital management and going concern assessment.

Prior to January 1, 2008, TimberWest accounted for inventories other than supplies at the lower of average cost and net realizable value on an aggregate basis for each of logs and for lumber. Effective January 1, 2008, inventories other than supplies are recorded at the lower of average cost and net realizable value on an item-by-item basis defined as end-use-sorts for logs and grade levels for lumber. TimberWest adopted the new

³ Earnings (loss) before interest, taxes, depreciation and amortization is a measure that does not have a standardized meaning prescribed by GAAP and may not be comparable to similar measures presented by other companies. Management believes that the presentation of this measure will enhance an investor's understanding of the Company's operating performance. A reconciliation of net earnings (loss) as determined in accordance with GAAP and earnings (loss) before interest, taxes, depreciation and amortization is provided in the supplemental information appended to this interim report.

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accounting policy on a prospective basis and prior years have not been restated. Accordingly, the opening log inventory and opening retained earnings as at January 1, 2008 have been written down by \$2.0 million.

The opening lumber inventory and opening retained earnings as at January 1, 2008 have been written down by \$0.8 million as a result of the new accounting policy to measure inventories at the lower of average cost and net realizable value on an item-by-item basis.

Refinancing

Prior to year-end, TimberWest announced its intention to raise \$150 million by way of a convertible debenture issue. TimberWest entered into an agreement with two wholly-owned subsidiaries of British Columbia Investment Management Corporation (the "bcIMC Investors") under which the bcIMC Investors have agreed to purchase \$100 million principal amount of convertible debentures of the Company by way of a private placement. In addition, the Company announced a rights offering in which the Company distributed rights that entitled the existing holders of Stapled Units of the Company to purchase up to \$50 million aggregate principal amount of the convertible debentures. The bcIMC Investors have committed to purchase an additional amount of the debentures equal to the aggregate principal amount of the debentures not subscribed for under the rights offering by providing a standby commitment.

The Company also announced that the proposed amendments to the Company's loan agreement had been approved by the Company's lenders, subject to the execution of definitive documentation and the fulfillment of certain conditions, including the completion of at least \$100 million of a convertible debenture offering and the application to the Company's existing credit facilities of \$75 million of the proceeds of the offering. The rights offering and the private placement are intended to satisfy this condition.

The convertible debentures will bear interest at an annual rate of 9% payable quarterly in arrears with a maturity date of February 11, 2014. The convertible debentures, including all accrued and unpaid interest thereon, will be convertible subject to certain conditions outlined in the final prospectus at \$3.50 per Stapled Unit.

Subsequent to year end, on February 11, 2009, the Company announced the closing of the \$150 million convertible debenture refinancing and amendments to the Company's loan agreements. The bcIMC Investors total investment was \$100 million and the Company raised an additional \$50 million through the public rights offering. With the amendments to the bank loan agreement and the issuance of the \$150 million convertible debentures, the Company believes it has sufficient flexibility to operate through the current market downturn. As previously reported, the Company did not expect to remain in compliance with its debt covenants under the loan agreement at the end of the 2008 calendar year. However, the lenders agreed to waive the covenant tests until the refinancing was complete. See note 16.

Cash Distribution

On December 19, 2008, the Company announced that proposed amendments to the terms of the Series A Subordinate Notes forming part of the Company's Stapled Units were approved by holders of the Stapled Units at a special meeting held on the same day. The Company also announced that the note amendments were approved by the lenders under its credit facilities and accordingly became effective as of December 31, 2008.

The note amendments:

- changed the rate of interest on the notes from a fixed rate of 12% per annum to a variable rate of between 2% and 12% per annum to be set from time to time based on the Company's distributable cash;
- reduced the period over which the Company can defer payments of interest on the notes from 27 months to 18 months, and provide that the Company may only exercise this deferral right in respect of interest payments for periods where the applicable interest rate on the notes is 2%; and
- replaced the Company's current right to elect to pay interest on the notes by delivering common shares or preferred shares of the Company with the right to elect to pay interest on the notes by delivering Stapled Units.

The note amendments have been implemented to enable the Company to better align its distributions with the underlying cash flows of its timberlands and real estate businesses.

The Company has set the interest rate on the notes at 2% per annum (corresponding to annual cash distributions of \$0.18 per Stapled Unit) for 2009. However, given the challenging business conditions it continues to face, the Company will defer distributions for the foreseeable future, including the distribution payable on January 15, 2009.

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The note amendments were approved 99% in favour by unitholders holding approximately 67% of the aggregate principal amount of all the notes represented in person or by proxy at the special meeting.

Quarterly Conference Call

TimberWest will hold a conference call at 9:00am (Pacific) on Friday, February 13, 2009, to discuss results of the fourth quarter. To access the conference call, listeners should dial 1-800-754-1336. For those unable to participate in the live call, a recording of the call will be available until February 27, 2009, and can be accessed at 1-800-558-5253 using code 21410937. The conference call will also be broadcast live over the internet via TimberWest's website home page at <http://www.timberwest.com>. The webcast will be archived and available for an additional 90 days.

Operating Highlights

Timberland Operations:	Three months ended December 31		Twelve months ended December 31	
	2008	2007	2008	2007
Log Sales Revenue (in millions of dollars)				
Domestic	\$ 14.8	\$ 17.2	\$ 68.5	\$ 122.1
Export – Asia	17.1	11.8	68.0	82.4
Export – US	3.0	1.4	10.9	41.9
	\$ 34.9	\$ 30.4	\$ 147.4	\$ 246.4
Log Sales Realizations (\$/m ³)				
Domestic	54	92	64	86
Export – Asia	118	96	99	112
Export – US	64	108	62	85
	75	94	76	93
Log Sales Volume (thousand m ³)				
Domestic	272.9	187.5	1,077.4	1,417.8
Export – Asia	145.7	123.0	686.8	734.5
Export – US	46.6	12.5	175.9	488.9
	465.2	323.0	1,940.1	2,641.2
Log Sales Mix (thousand m ³)				
Fir	284.0	151.8	1,253.3	1,697.7
Hembal	131.5	99.7	468.1	573.8
Cedar	18.4	44.8	103.8	204.9
Other	31.3	26.7	114.9	164.8
	465.2	323.0	1,940.1	2,641.2
Log Production Volume (thousand m ³)				
Public tenures	35.1	75.9	265.4	452.4
Private timberlands	414.3	212.4	1,569.1	2,226.6
	449.4	288.3	1,834.5	2,679.0
Log Production Costs (\$/m ³)				
	71	97	67	73
Timberland operating margin (% of log sales)	1%	(3)%	3%	20%

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Log sales revenues for the three months and year-to-date ended December 31, 2008, were down compared to log sales revenues for the same periods of 2007 due to significant declines in average log realizations as a result of weak domestic and US log markets, the Company's deferred harvest strategy, and a strong Canadian dollar for most of the year.

During 2008, Japan was the bright spot in the log market. For the three months ended December 31, 2008, log shipments increased 53% and average realizations increased 24% compared to the fourth quarter of 2007. Overall, log shipments into this market increased slightly during 2008 to 571,000 m³ compared to 521,000 m³ in 2007 as the Company focused on supplying key customers in that market to ensure their source of supply for premium species Douglas fir logs.

Unit production costs for the fourth quarter of 2008 decreased compared to the fourth quarter of 2007 due to higher production volumes compared to the fourth quarter of 2007 when the United Steelworkers strike curtailed production during the quarter. Unit production costs on a year-to-date basis were lower as a result of the use of lower cost and more competitive bid contractors compared to 2007 when the Company experienced above market cost increases with its large stump-to-dump contractors who, as a group, produced 55% of the Company's private land harvest compared to 25% in 2008.

Real Estate:	Three months ended December 31		Twelve months ended December 31	
	2008	2007	2008	2007
Real Estate Sales <i>(in millions of dollars)</i>	\$ 0.3	\$ 65.3	\$ 11.8	\$ 67.1
Leech Creek Net Proceeds <i>(in millions of dollars)</i>	-	64.6	-	64.6
Leech Creek Net Proceeds <i>(\$/acre)</i>	-	2,691	-	2,691
Real Estate Net Proceeds, excluding Leech Creek <i>(in millions of dollars)</i>	0.3	0.4	10.9	1.9
Real Estate Net Proceeds, excluding Leech Creek <i>(\$/acre)</i>	15,908	4,160	9,409	3,636

Real estate sales in the fourth quarter of 2008 comprised of a property sale from non-core real estate assets. Proceeds from the sale of real estate for the fourth quarter of 2007 were comprised of one significant conservation land sale (Leech Creek) to the Capital Regional District and several smaller transactions.

Earnings (loss) Before Interest, Taxes, Depreciation and Amortization (EBITDA)⁴: <i>(in millions of dollars)</i>	Three months ended December 31		Twelve months ended December 31	
	2008	2007	2008	2007
Net earnings (loss) from continuing operations	\$ 312.3	\$ 14.8	\$ 240.7	\$ (13.3)
Add (deduct):				
Interest on Series A Subordinate Notes paid to unitholders	17.8	21.0	80.8	83.7
Interest on long-term debt	1.5	2.5	7.6	3.7
Interest on short-term debt	1.1	1.0	2.6	11.2
Income tax expense (recovery)	120.3	(18.7)	114.5	(22.2)
Depreciation, depletion and amortization	1.1	1.0	4.5	5.4
Amortization of deferred financing costs	-	0.1	0.3	0.9
Gain on modification of Series A Subordinate Notes	(461.6)	-	(461.6)	-
Earnings (loss) from continuing operations before Interest, Taxes, Depreciation and Amortization	(7.5)	21.7	(10.6)	69.4
Earnings (loss) from discontinued operations before Interest, Taxes, Depreciation and Amortization	2.3	(19.3)	(5.4)	(21.1)
Earnings (loss) before Interest, Taxes, Depreciation and Amortization	(5.2)	2.4	(16.0)	48.3

⁴ EBITDA does not have a standardized meaning prescribed by Canadian generally accepted accounting principles and may not be comparable to similar measures presented by other companies. Management believes that the presentation of this measure will enhance an investor's understanding of the Company's operating performance.

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Discontinued Operations

	Three months ended December 31		Twelve months ended December 31	
	2008	2007	2008	2007
Elk Falls Sawmill:				
Sales Revenue by Product <i>(in millions of dollars)</i>				
Lumber	\$ -	\$ 20.1	\$ 34.6	\$ 76.0
Wood chips and residuals	-	2.5	4.6	12.4
Sales Realizations				
Lumber (\$/mfbm)	-	582	622	606
Wood chips (\$/m ³)	-	46	43	46
Sales Volume				
Lumber (million fbm)	-	34.4	55.6	125.3
Wood chips (thousand m ³)	-	51.7	101.9	254.3
Lumber Production Volume (million fbm)	-	23.4	43.3	122.7

The Elk Falls sawmill was permanently closed on May 9, 2008.

Financial Position

Summary of Financial Position from Continuing Operations:

	As at December 31, 2008	As at December 31, 2007
Cash and cash equivalents	\$ 30.8	\$ 1.2
Current assets, including cash and cash equivalents	71.0	47.2
Property, plant and equipment	1,222.0	1,230.0
Other assets	7.1	2.0
Current liabilities	132.2	36.1
Current liabilities (excluding short term debt)	23.9	36.1
Long-term debt	189.8	187.5
Long-term liabilities (excluding long term debt)	292.6	159.6
Series A Subordinate Notes owned by unitholders	240.4	698.1
Unitholder's equity	443.7	210.8

Cash and cash equivalents increased to \$30.8 million at December 31, 2008, reflecting an increase in cash provided by financing activities. Trade accounts receivable was \$4.1 million at December 31, 2008, comparable to \$4.9 million at the end of 2007. Inventory was \$29.1 million at December 31, 2008, down from \$32.9 million at December 31, 2007. Prior to January 1, 2008, TimberWest recorded inventories at a lower of average cost and net realizable value on an aggregate basis for logs. On January 1, 2008 TimberWest changed its policy of accounting for inventories to record inventories at the lower of average cost and net realizable value on an item-by-item basis defined as end-use sorts for logs (See Highlights and Significant Transactions – Adoption of New Accounting Policies). This change in accounting policy for inventories resulted in a \$3.2 million decrease of log inventory values as at December 31, 2008 compared to the end of 2007. Prepaid expenses and other current assets were \$3.7 million at December 31, 2008, compared to \$6.1 million at the end of 2007, reflecting a decrease in non-trade receivables. Future income tax assets were \$3.3 million as at December 31, 2008, an increase from \$2.1 million at the end of 2007. The year over year increase is due to an increase of \$1.2 million in future tax assets for financial reporting accruals not deductible for tax purposes.

Property, plant and equipment were \$1,222.0 million as at December 31, 2008, \$8.0 million less than as at December 31, 2007. This decrease primarily reflects the sale of higher and better use properties and other capital assets, with a net book value of \$5.6 million, as well as a provision for depreciation of capital assets of \$4.5 million

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recorded during the year. These items were offset in part by capital additions of \$2.1 million, comprised primarily of logging roads and new information technology systems.

Other assets of \$7.1 million as at December 31, 2008, increased from the balance of \$2.0 million at the end of December 31, 2007. This increase is primarily due to the non-cash financial assets of \$4.7 million that were recorded in 2008. These financial assets are the embedded derivatives that arise from the Company's option to defer the Series A Subordinate Note interest payments for up to 18 months while the distribution rate is set at 2% and the option to extend the maturity date of the Series A Subordinate Notes for a 10-year period from 2038 to 2048.

Current liabilities as at December 31, 2008, include borrowings of \$108.3 million on the Tranche B term unsecured term credit facility. Excluding the term credit facility, current liabilities at December 31, 2008 were \$23.9 million. This variance in current liabilities (excluding short-term debt) can be attributed to the decrease in distribution payable, as the distribution in respect of the fourth quarter of 2008 is classified as a long-term liability to reflect the 27 month payment deferral. Accounts payable and accrued liabilities increased \$8.8 million to \$23.9 million as at December 31, 2008, reflecting increased trade payables and invoice accruals due to higher harvest levels in the month of December 2008, and increased restructuring related accruals associated with the labour settlement, severance, and refinancing compared to balances as at December 31, 2007.

As at December 31, 2008, the Company had combined borrowings of \$298.1 million on its available credit facilities, including borrowings of \$189.8 million on its Tranche A \$216.7 million long-term unsecured revolving facility due on September 24, 2012, and \$108.3 million on its Tranche B \$108.3 million term facility due September 24, 2009. In addition, the Company had commitments of \$16.8 million relating to outstanding letters of credit issued under its Tranche A facility. The Company also had cash on hand of \$30.8 million.

Other long-term liabilities as at December 31, 2008, included a silviculture liability of \$3.2 million, a \$36.7 million liability relating to employee future benefits, a \$17.8 million distribution payable and a future income tax liability of \$234.9 million. The long-term silviculture liability and the liability relating to employee future benefits are comparable to balances as at December 31, 2007. The deferred distribution payable of \$17.8 million (\$21.0 million face value) is the fair value of the January 15, 2009 distribution that has been deferred for up to 27 months. The future income tax liability increased to \$234.9 million at the end of 2008. The increase in 2008 can be attributed to a \$119.6 million expense on the \$461.6 million gain on modification of Series A Subordinate Notes. Also reflected is the effect of the reduction in the British Columbia provincial corporate tax rate that was substantively enacted in the first quarter of 2008.

The Series A Subordinate Note component of the Company's Stapled Unit is presented as a liability on the Company's consolidated balance sheets. As at December 31, 2008 the fair value of the Series A Subordinate Note liability was \$240.4 million compared to \$698.1 million as at December 31, 2007. Amendments approved by unitholders on December 19, 2008 resulted in an accounting revaluation of the Series A Subordinate Notes. The revaluation resulted in a write-down in the book value of the Series A Subordinate Notes with a corresponding non-cash accounting gain of \$461.6 million, which will be accreted back to the \$698.2 million face value over the term of the notes. The book value of the Series A Subordinate Notes has been increased by two embedded derivatives of \$4.7 million that arise from the Company's option to defer distributions on the notes, and the option to extend the term of the note for a period of 10-years. In addition, transaction costs of \$0.9 million for the Series A Subordinate Note modification have reduced the book value of the notes.

During the quarter ended December 31, 2008, 261,844 Stapled Unit options were granted, no options to purchase Stapled Units were exercised, 26,000 options were cancelled and 107,938 options expired. During the 12 months ended December 31, 2008, 261,844 Stapled Unit options were granted, options to purchase 15,297 Stapled Units were exercised for proceeds of \$0.1 million, 35,678 options were cancelled and 122,698 options expired. As at February 12, 2009, the Company had 1,240,326 granted and outstanding Stapled Unit option awards and 77,765,440 issued and outstanding Stapled Units.

Current assets from discontinued operations as at December 31, 2008, included prepaid expenses of \$0.1 million. Comparatively, current assets from discontinued operations as at December 31, 2007, included accounts receivables of \$8.5 million, lumber inventories of \$8.2 million and prepaid expenses and other current assets of \$0.5 million. Current liabilities from discontinued operations are comprised of accounts payable and accrued liabilities and were \$1.5 million as at December 31, 2008, compared to \$4.3 million at December 31, 2007. Current assets and liabilities from discontinued operations have decreased due to the permanent closure of the Elk Falls sawmill on May 9, 2008.

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Cash Flow and Liquidity

Selected Cash Flow Items: <i>(in millions of dollars)</i>	Three months ended December 31		Twelve months ended December 31	
	2008	2007	2008	2007
Cash provided by (used in):				
Operating activities from continuing operations:				
Cash used in operations before changes in non-cash working capital	\$ (30.6)	\$ (28.2)	\$ (108.1)	\$ (59.4)
Changes in non-cash working capital	0.2	6.1	13.7	(9.3)
	(30.4)	(22.1)	(94.4)	(68.7)
Financing activities:				
Issuance of Stapled Units on exercise of options	-	0.2	0.1	1.7
Revolving credit facilities	62.8	154.5	2.3	187.5
Term credit facilities	-	-	108.3	-
Financing costs	(2.0)	-	(2.0)	-
Debentures	-	(195.0)	-	(195.0)
	60.8	(40.3)	108.7	(5.8)
Investing activities:				
Proceeds from sale of other assets	0.8	65.1	11.5	71.9
Additions to property, plant and equipment	(0.4)	(1.2)	(2.1)	(3.4)
Other assets	(0.1)	(0.1)	-	(0.6)
	0.3	63.8	9.4	67.9
Cash provided by (used in) discontinued operations:	(0.8)	(1.2)	5.9	(1.5)
Increase (decrease) in cash and cash equivalents	\$ 29.9	\$ 0.2	\$ 29.6	\$ (8.1)

During the three months ended December 31, 2008, the Company issued no Stapled Units on the exercise of Stapled Unit options, compared to the issuance of 11,910 Stapled Units on the exercise of Stapled Unit options for net proceeds of \$0.2 million in the comparative quarter in 2007. During the fourth quarter of 2008, \$62.8 million was borrowed on available credit facilities, compared to \$40.5 million that was applied to reduce amounts borrowed on available credit facilities during the same period in 2007.

For the twelve months ended December 31, 2008, the Company issued 15,297 Stapled Units for net proceeds of \$0.1 million on the exercise of Stapled Unit options, compared to the issuance of 114,889 Stapled Units for net proceeds of \$1.7 million on the exercise of Stapled Unit options in the comparative period in 2007. In 2008, \$110.6 million was borrowed on available credit facilities, compared to a \$7.5 million decrease in amounts borrowed on available credit facilities during the same period in 2007. Cash and cash equivalents at the end of 2008 were \$30.8 million compared to \$1.2 million in the prior year.

Financing activities in fourth quarter of 2008 included financing fees of \$2.0 million related to the modification of the Series A Subordinate Notes and the offering of rights to subscribe for 9% convertible debentures.

In the fourth quarter of 2008, the Company received net proceeds of \$0.8 million from the sale of other assets, including \$0.3 million from the sale of higher use properties and incurred \$0.4 million for capital expenditures primarily for the construction of logging roads and new information technology. For the twelve months ended December 31, 2008, the Company received net proceeds of \$11.5 million from the sale of other assets, primarily from the sale of higher use properties, and incurred \$2.1 million for capital expenditures primarily for the construction of logging roads and new information technology.



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As at December 31, 2008, the principal amount of TimberWest's total debt⁵ outstanding was \$298.1 million compared to total principal amount of debt outstanding of \$187.5 million as at December 31, 2007. The Company's consolidated debt-to-total capitalization ratio⁵ as at December 31, 2008 was 30:70, compared to 17:83 as at December 31, 2007.

Cash used in discontinued operations in the fourth quarter of 2008, was the result of a reduction in accounts payable and accrued liabilities.

Total debt facilities available to the Company as at December 31, 2008, were \$325.0 million, comprised of \$108.3 million available under Tranche B, a term facility due September 24, 2009 and \$216.7 million available under Tranche A, a long-term revolving facility due September 24, 2012. As at December 31, 2008 the Company had commitments of \$16.8 million relating to outstanding letters of credit issued to secure various obligations of the Company issued under Tranche A, the \$216.7 million long-term unsecured facility.

Internal Controls over Financial Reporting

During the quarter ended December 31, 2008, the Company did not make any changes to its internal controls over financial reporting that would have materially affected, or would reasonably likely materially affect, such controls.

International Financial Reporting Standards ("IFRS")

On February 13, 2008, the Canadian Accounting Standards Board ("AcSB") confirmed the use of International Financial Reporting Standards ("IFRS") to commence in 2011 for publicly accountable profit-oriented enterprises. IFRS will replace Canada's Generally Accepted Accounting Principles ("GAAP") and the official changeover date is for interim and annual financial statements relating to fiscal years beginning on or after January 1, 2011.

TimberWest will adopt IFRS according to requirements outlined by the AcSB, and is in the process of preparing for the adoption of IFRS on January 1, 2011.

⁵ Total debt and the debt-to-total capitalization ratio are measures that do not have a standardized meaning prescribed by GAAP and may not be comparable to similar measures presented by other companies. As the Company's Series A Subordinate Notes trade only as part of the Company's equity instrument, the Stapled Unit, they are not included in the Company's definition of debt. Management believes that the presentation of these measures will enhance an investor's understanding of the Company's financial resources and capital structure.



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Forward Looking Statements

The statements which are not historical facts contained in this report are forward-looking statements that involve risks and uncertainties. TimberWest's actual results could differ materially from those expressed or implied by such forward-looking statements. Factors that could cause or contribute to such differences include, but are not limited to, general economic conditions, variations in TimberWest's product prices and changes in commodity prices generally, changes in market conditions, variations in harvest levels, changes in log transportation costs, actions of competitors, interest rate and foreign currency fluctuations, regulatory, harvesting fee and trade policy changes and other actions by governmental authorities including real estate zoning approvals, the ability to implement business strategies and pursue business opportunities, labour relations, weather conditions, forest fires, insect infestation, disease and other natural phenomena and other risks and uncertainties described in TimberWest's public filings with securities regulatory authorities.



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Notice

The accompanying unaudited interim consolidated financial statements of TimberWest Forest Corp. (the "Company") have not been reviewed by the Company's auditors.

TIMBERWEST FOREST CORP.

Consolidated Statements of Operations and Comprehensive Income (Loss)

(in millions of dollars)
Unaudited

	Three months ended December 31		Twelve months ended December 31	
	2008	2007	2008	2007
Sales	\$ 35.9	\$ 96.5	\$ 163.7	\$ 318.4
Operating costs and expenses:				
Cost of sales	40.2	71.3	161.6	239.4
Selling, administrative and other	3.2	3.6	12.5	16.1
Depreciation, depletion and amortization	1.1	1.0	4.5	5.4
	44.5	75.9	178.6	260.9
Operating earnings (loss) from continuing operations	(8.6)	20.6	(14.9)	57.5
Interest expense:				
Series A Subordinate Notes owned by unitholders	17.8	21.0	80.8	83.7
Long-term debt	1.5	2.5	7.6	3.7
Short-term debt	1.1	1.0	2.6	11.2
	20.4	24.5	91.0	98.6
Amortization of deferred financing costs	-	0.1	0.3	0.9
Other expense (income)	-	(0.1)	0.2	(6.5)
Gain on modification of Series A Subordinate Notes	(461.6)	-	(461.6)	-
	(441.2)	24.5	(370.1)	93.0
Earnings (loss) before income taxes from continuing operations	432.6	(3.9)	355.2	(35.5)
Income tax expense (recovery) (note 4)	120.3	(18.7)	114.5	(22.2)
Net earnings (loss) and comprehensive income (loss) from continuing operations	312.3	14.8	240.7	(13.3)
Net earnings (loss) and comprehensive income (loss) from discontinued operations	2.3	(14.9)	(5.4)	(18.5)
Net earnings (loss) and comprehensive income (loss)	\$ 314.6	\$ (0.1)	\$ 235.3	\$ (31.8)
Basic and diluted earnings (loss) from continuing operations per common share (note 5)	\$ 4.02	\$ 0.19	\$ 3.10	\$ (0.17)
Basic and diluted earnings (loss) from discontinued operations per common share (note 5)	\$ 0.03	\$ (0.19)	\$ (0.07)	\$ (0.24)
Basic and diluted earnings (loss) per common share (note 5)	\$ 4.05	\$ (0.00)	\$ 3.03	\$ (0.41)

Consolidated Statements of Retained Earnings (Deficit)

(in millions of dollars)
Unaudited

	Three months ended December 31		Twelve months ended December 31	
	2008	2007	2008	2007
Retained earnings (deficit), beginning of period, as previously reported	\$ (63.8)	\$ 18.4	\$ 18.3	\$ 50.1
Adoption of new accounting policy for inventories (note 2(a))	-	-	(2.8)	-
Retained earnings, beginning of period, as adjusted	(63.8)	18.4	15.5	50.1
Net earnings (loss) and comprehensive income (loss) for the period	314.6	(0.1)	235.3	(31.8)
Retained earnings (deficit), end of period	\$ 250.8	\$ 18.3	\$ 250.8	\$ 18.3

See accompanying notes to unaudited interim consolidated financial statements.

TIMBERWEST FOREST CORP.

Consolidated Balance Sheets

(in millions of dollars)

	As at December 31, 2008 <i>Unaudited</i>	As at December 31, 2007
Assets		
Current assets:		
Cash	\$ 30.8	\$ 1.2
Accounts receivable	4.1	4.9
Inventories (note 2(a) and 6)	29.1	32.9
Prepaid expenses and other current assets	3.7	6.1
Future income taxes	3.3	2.1
Discontinued operations	0.1	17.2
	71.1	64.4
Property, plant and equipment, net (note 7)	1,222.0	1,230.0
Other assets (note 8)	7.1	2.0
	\$ 1,300.2	\$ 1,296.4
Liabilities and Unitholders' Equity		
Current liabilities:		
Term credit facilities	\$ 108.3	\$ -
Accounts payable and accrued liabilities	23.9	15.1
Distribution payable	-	21.0
Discontinued operations	1.5	4.3
	133.7	40.4
Revolving credit facilities	189.8	187.5
Long-term silviculture liability	3.2	3.2
Employee future benefits (note 10)	36.7	37.2
Deferred distribution payable (note 11)	17.8	-
Future income taxes	234.9	119.2
	616.1	387.5
Series A Subordinate Notes owned by unitholders (note 12)	240.4	698.1
	856.5	1,085.6
Unitholders' equity:		
Share capital, consisting of common and preferred shares (note 12)	191.0	191.0
Contributed surplus	1.9	1.5
Retained earnings	250.8	18.3
	443.7	210.8
	\$ 1,300.2	\$ 1,296.4

See accompanying notes to unaudited interim consolidated financial statements.

TIMBERWEST FOREST CORP.

Consolidated Statements of Cash Flows

(in millions of dollars)
Unaudited

	Three months ended December 31		Twelve months ended December 31	
	2008	2007	2008	2007
Cash provided by (used in):				
Operating activities:				
Net earnings (loss) from continuing operations	\$ 312.3	\$ 14.8	\$ 240.7	\$ (13.3)
Items not involving cash:				
Depreciation, depletion and amortization	1.1	1.1	4.8	6.3
Gain on sale of property, plant and equipment	(0.3)	(22.3)	(5.5)	(28.5)
Future income tax expense (recovery)	120.3	(18.7)	114.5	(22.1)
Gain on modification of Series A Subordinate Note	(461.6)	-	(461.6)	-
Other non-cash items	(2.4)	(3.1)	(1.0)	(1.8)
	(30.6)	(28.2)	(108.1)	(59.4)
Changes in non-cash working capital:				
Accounts receivable	(0.5)	3.8	0.8	1.8
Inventories	(5.2)	3.7	1.8	7.4
Prepaid expenses and other working capital	1.5	4.4	2.4	(1.0)
Accounts payable and accrued liabilities	4.4	(5.8)	8.7	(17.5)
	0.2	6.1	13.7	(9.3)
	(30.4)	(22.1)	(94.4)	(68.7)
Financing activities:				
Issuance of Stapled Units on exercise of options:				
Series A Subordinate Notes	-	0.1	0.1	1.1
Share capital	-	0.1	-	0.6
	-	0.2	0.1	1.7
Revolving credit facilities	62.8	154.5	2.3	187.5
Term credit facilities	-	-	108.3	-
Financing costs	(2.0)	-	(2.0)	-
Debentures	-	(195.0)	-	(195.0)
	60.8	(40.3)	108.7	(5.8)
Investing activities:				
Proceeds from sale of property, plant and equipment	0.8	65.1	11.5	71.9
Additions to property, plant and equipment	(0.4)	(1.2)	(2.1)	(3.4)
Other assets	(0.1)	(0.1)	-	(0.6)
	0.3	63.8	9.4	67.9
Cash provided by (used in) continuing operations	30.7	1.4	23.7	(6.6)
Cash provided by (used in) discontinued operations	(0.8)	(1.2)	5.9	(1.5)
Increase (decrease) in cash and cash equivalents	29.9	0.2	29.6	(8.1)
Cash and cash equivalents, beginning of period	0.9	1.0	1.2	9.3
Cash and cash equivalents, end of period	\$ 30.8	\$ 1.2	\$ 30.8	\$ 1.2
Supplemental information:				
Interest on Series A Subordinate Notes paid to unitholders	\$ 21.0	\$ 20.9	\$ 84.0	\$ 83.6
Other interest paid	\$ 2.2	\$ 10.7	\$ 9.0	\$ 18.8

See accompanying notes to unaudited interim consolidated financial statements.



TIMBERWEST FOREST CORP.

Notes to Unaudited Interim Consolidated Financial Statements For the three and twelve months ended December 31, 2008 and 2007

Financial figures presented in the tables that follow are in millions of dollars, except per common share amounts.

1. Significant Accounting Policies

The accompanying unaudited interim consolidated financial statements include the accounts of TimberWest Forest Corp. and its subsidiaries ("the Company"), have been prepared in accordance with Canadian generally accepted accounting principles and are expressed in Canadian dollars. Not all disclosures required by Canadian generally accepted accounting principles ("GAAP") for annual financial statements are presented and, accordingly, these interim consolidated financial statements should be read in conjunction with the Company's most recent annual consolidated financial statements. These interim consolidated financial statements follow the same accounting policies and methods of application used in the Company's audited annual consolidated financial statements of December 31, 2007, except for the adoption of new accounting policies as described in note 2.

2. Adoption of New Accounting Policies

(a) Inventories, Section 3031

In June 2007, the CICA issued Section 3031, Inventories, that supersedes Section 3030 and applies to interim and annual periods beginning on or after January 1, 2008. This section establishes increased guidance on the measurement of inventory and enhances disclosure requirements. The changes in measurement requirements include measuring inventories at the lower of cost and net realizable value, increased guidelines on the grouping of inventories including requirement for the Company to use a consistent cost formula for inventory of a similar nature and use, the allocation of overhead based on normal capacity, the use of specific cost method for inventories that are not ordinarily interchangeable or goods and services produced for specific purposes, and the reversal of previous write-downs to net realizable value when the value of inventories increase subsequent to the write-downs.

Prior to January 1, 2008, TimberWest accounted for log and lumber inventories other than supplies at the lower of average cost and net realizable value on an aggregate basis for each of logs and for lumber. Supplies were recorded at the lower of cost and replacement value.

TimberWest adopted Section 3031 on January 1, 2008 on a prospective basis and prior periods are not restated. Accordingly, inventories other than supplies are recorded at the lower of average cost and net realizable value on an item-by-item basis defined as end-use-sorts for logs and grade levels for lumber. The opening log inventory and opening retained earnings as at January 1, 2008 have been written down by \$2.0 million.

The opening lumber inventory and opening retained earnings as at January 1, 2008 have been written down by \$0.8 million.

Supplies are recorded at the lower of cost and replacement value which approximates net realizable value.

(b) Financial Instruments – Disclosures and Presentation, Sections 3862 and 3863

The CICA issued Section 3862 on disclosures, and Section 3863 on presentation. The two new Sections replace Section 3861, and set out additional financial instruments disclosure requirements while carrying forward unchanged its presentation requirements. These sections are applicable to interim and annual financial statements relating to fiscal years beginning on or after October 1, 2007.

TimberWest adopted Section 3862 and 3863 effective January 1, 2008 and provides qualitative and quantitative disclosures related to the nature and extent of risks arising from financial instruments (see note 14).



TIMBERWEST FOREST CORP.

Notes to Unaudited Interim Consolidated Financial Statements For the three and twelve months ended December 31, 2008 and 2007

Financial figures presented in the tables that follow are in millions of dollars, except per common share amounts.

2. Adoption of New Accounting Policies (continued)

(c) Capital Disclosures, Section 1535

The Company adopted Section 1535, Capital Disclosures, effective January 1, 2008. This section requires additional disclosures relating to capital management strategies to enable users of its financial statements to evaluate the Company's objectives, policies and processes for managing capital.

(d) Assessing Going Concern, Section 1400

In June 2007, Section 1400 was amended to include requirements for management to assess and disclose an entity's ability to continue as a going concern. This section applies to interim and annual periods beginning on or after January 1, 2008.

The current economic environment for the North American forest products industry is challenging with substantially lower than average prices, a strong Canadian dollar relative to the US dollar and high input costs due to low production. TimberWest responded to these conditions by reducing logging production, permanently closing its last sawmill operation, reducing overhead costs, and restructuring labour and contractor agreements. The Company has a working capital deficit of \$62.6 million primarily due to the current portion of term credit facilities of \$108.3 million.

The Company has forecasted its financial results and cash flows for 2009 using its best estimates of market and operating conditions. These forecasts consider the modification of the interest rate on the Series A Subordinate Notes, with interest deferred for a period of time (note 12), and the refinancing package (note 16) which includes credit amendments to the bank facilities, a \$100 million private placement with British Columbia Investment Management Corporation of 9% convertible debentures, and a \$50 million 9% convertible debenture rights offering that was completed on February 11, 2009. Based on these forecasts the Company believes there is sufficient financial flexibility to continue as a going concern in a protracted downturn. The Company expects to meet its future cash requirements through a combination of cash generated from its logging operations and real estate sales, existing cash balances and credit facilities, and the refinancing arrangements completed. However, any significant strengthening of the Canadian dollar, decline in U.S. housing or other markets driving reduced demand or other unexpected adverse developments could adversely impact the Company's liquidity in the short term.

The accompanying consolidated financial statements have been prepared assuming the Company will continue as a going concern, which contemplates the realization of assets and the satisfaction of liabilities in the normal course of business. The consolidated financial statements do not include any adjustments relating to the recoverability and classification of recorded asset amounts and the amount and classification of liabilities that might be necessary should the Company be unable to continue as a going concern.

The Company's continuation as a going concern is ultimately dependent upon its future financial performance, which will be affected by general economic, competitive and other factors, many of which are beyond the Company's control.

TIMBERWEST FOREST CORP.

Notes to Unaudited Interim Consolidated Financial Statements For the three and twelve months ended December 31, 2008 and 2007

Financial figures presented in the tables that follow are in millions of dollars, except per common share amounts.

3. Discontinued Operations

On May 9, 2008, the Elk Falls sawmill in Campbell River, B.C. was permanently closed. This sawmill closure included the associated shipping operations at Stuart Channel Wharves located in Crofton, B.C. Subsequent to the closure, TimberWest is disposing of substantially all of the assets of the sawmill and dismantling the sawmill and planer mill. Ongoing costs such as property taxes continue to be expensed as incurred. The Company is assessing alternatives for the former sawmill site.

	Three months ended December 31		Twelve months ended December 31	
	2008	2007	2008	2007
Sales	\$ -	\$ 23.1	\$ 42.4	\$ 90.6
Earnings (loss) before income taxes	\$ 2.3	\$ (19.9)	\$ (5.4)	\$ (23.5)
Net earnings (loss)	\$ 2.3	\$ (14.9)	\$ (5.4)	\$ (18.5)

Sales from the logging operations to the sawmill operations have been recorded at fair value in accordance with the Company's internal policies. Inter-divisional sales for the three and twelve months ended December 31, 2008 were nil and \$13.0 million (2007 - \$7.3 million and \$43.1 million). Sales revenues for 2008 include proceeds from the disposal of the operating assets of the sawmill. The earnings recorded in the fourth quarter related solely to a non cash actuarial gain resulting from the partial termination of pension plans related to former Elk Falls employees.

	Three months ended December 31		Twelve months ended December 31	
	2008	2007	2008	2007
Cash flow from operating activities	\$ (0.8)	\$ (1.2)	\$ 5.4	\$ (1.5)
Cash flow from financing activities	-	-	-	-
Cash flow from investing activities	-	-	0.5	-
Cash provided by operations	\$ (0.8)	\$ (1.2)	\$ 5.9	\$ (1.5)

4. Income Taxes

	Three months ended December 31		Twelve months ended December 31	
	2008	2007	2008	2007
Current income tax	\$ -	\$ -	\$ -	\$ (0.1)
Future income tax expense (recovery)	120.3	(18.7)	114.5	(22.1)
	\$ 120.3	\$ (18.7)	\$ 114.5	\$ (22.2)

The Company's future income tax liability increased for the fourth quarter of 2008, as a result of the gain on modification of the Series A Subordinate Notes which resulted in a future income tax expense of \$119.6 million.

In the first quarter of 2008, British Columbia provincial tax legislation was substantively enacted, resulting in the reduction of the provincial corporate tax rate to 11% as of July 1, 2008. This tax rate change resulted in a future income tax recovery of \$4.3 million and is included in the future income tax expense for the 12 months ended December 31, 2008.

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Notes to Unaudited Interim Consolidated Financial Statements For the three and twelve months ended December 31, 2008 and 2007

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4. Income Taxes (continued)

The \$22.2 million income tax recovery from continuing operations and the \$5.0 million recovery from discontinued operations for 2007 included a \$16.9 million recovery to reflect the effect of changes in Canadian federal income tax rates that were substantively enacted during 2007.

5. Earnings (loss) per Share

	Three months ended December 31		Twelve months ended December 31	
	2008	2007	2008	2007
Net earnings (loss) from continuing operations	\$ 312.3	\$ 14.8	\$ 240.7	\$ (13.3)
Net earnings (loss)	314.6	(0.1)	235.3	(31.8)
Basic weighted average number of common shares	77,765,440	77,744,554	77,759,137	77,720,298
Incremental common shares from potential exercise of options	2,993	79,755	23,142	127,585
Diluted weighted average number of common shares	77,768,433	77,824,309	77,782,279	77,847,883
Basic and diluted net earnings (loss) from continuing operations per common share	\$ 4.02	\$ 0.19	\$ 3.10	\$ (0.17)
Basic and diluted net earnings (loss) from discontinued operations per common share	\$ 0.03	\$ (0.19)	\$ (0.07)	\$ (0.24)
Basic and diluted net earnings (loss) per common share	\$ 4.05	\$ (0.00)	\$ 3.03	\$ (0.41)

6. Inventories

	As at December 31, 2008	As at December 31, 2007
Logs	\$ 29.1	\$ 32.9

For the three months ended December 31, 2008, no write down of log inventory was expensed to cost of sales for the period. For the twelve months ended December 31, 2008, log inventories have been written down by \$1.2 million, which has been expensed to cost of sales for the period.



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Financial figures presented in the tables that follow are in millions of dollars, except per common share amounts.

7. Property, Plant and Equipment

The Company reviews long-lived assets for impairment when events or changes in circumstances indicate that the carrying value of these assets may not be recoverable. The Company tests for impairment using a two-step methodology:

- (i) Determine whether the projected undiscounted future cash flows from operations exceed the net carrying amount of the assets as of the assessment date, and
- (ii) If assets are determined to be impaired in step (i), then such impaired assets are written down to their fair value, determined principally by using discounted future cash flows expected from their use and eventual disposition.

At year end, as a result of the continued decline in forest product prices and the negative outlook for forest products in the short term, the Company conducted step (i) impairment tests on its long lived assets. Estimates of future cash flows used to test the recoverability of long-lived assets included key assumptions related to forecast prices, growth and yield expectations, production levels, production costs, market supply and demand, currency fluctuations and capital spending. The assumptions are derived from information generated internally and other external published reports and forecasts prepared by various industry experts. Product sales prices were based on management's best estimates incorporating independent market information as well as analysis of historical data, trends and cycles. The Company is estimating an improvement in pricing in the future from the current depressed prices.

Based on these assumptions, the Company's projected undiscounted cash flows from operations exceed the net book value of the Company's long lived assets by a considerable margin. As a result, the Company's is not required to perform the second step of comparing the net book value of the long lived assets to fair value.

Estimates of future cash flows and fair value require judgments, assumptions and estimates and may change over time. Due to the variables associated with judgments and assumptions used in these tests, the precision and accuracy of estimates of impairment charges are subject to significant uncertainties and may change significantly as additional information becomes known. Long-lived assets represented approximately 94% of total assets as at December 31, 2008. If future developments were to differ adversely from management's best estimate of key assumptions and associated cash flows, the Company could potentially experience future material impairment charges.

Property, plant and equipment at December 31, 2008, includes private timberlands with a carrying value of \$1,170.9 million. This amount includes a valuation increase adjustment of \$375.9 million recorded resulting from the adoption of Section 3465 – Income Taxes of the CICA Handbook, which was mandatory for fiscal years ending on or after January 1, 2000.

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8. Other Assets

	As at December 31, 2008	As at December 31, 2007
Deferred financing costs	\$ 1.4	\$ 0.5
Receivable on sale of property, plant and equipment	-	0.5
Financial instruments	4.7	-
Other	1.0	1.0
	\$ 7.1	\$ 2.0

The Company has the option to defer the distributions payable to its unitholders for a period of up to 18 months in length while the distribution rate is set at 2% (note 12). This option constitutes an embedded derivative and is measured at its fair value. As the Company has elected to defer distributions for the immediate future, the value to the Company of this option has increased to \$4.1 million.

The embedded derivative arising from the option to extend the maturity of the Series A Subordinate Notes for a further 10-year period from 2038 to 2048 is measured at its fair value of \$0.6 million.

9. Credit Facilities

As at December 31, 2008, the Company's credit facilities were comprised of:

(a) \$216.7 million Tranche A unsecured long-term revolving facility:

The Company has an unsecured long-term revolving facility of \$216.7 million. Under this facility, funds are available to the Company in both Canadian and US dollars by way of adjusted prime rate-based loans, bankers' acceptances, LIBOR plus 0.9% loans and letters of credit or guarantee. This facility has been underwritten by a syndicate of banks and is due on September 24, 2012. As at December 31, 2008, the Company had borrowings of \$189.8 million (2007 - \$187.5 million) on this facility. In addition, the Company had issued letters of credit or guarantee in the amount of \$16.8 million (2007 - \$1.4 million, with an additional \$16.1 million issued by a Canadian Chartered bank cancelled in April 2008). The average effective interest rate on this facility for the period it was outstanding during 2008 was 4.46% (2007 - 5.56%).

(b) \$108.3 million Tranche B unsecured term facility:

The Company has an unsecured term facility of \$108.3 million. Under this facility, funds are available to the Company in Canadian dollars by way of an adjusted prime rate-based term loan. This facility has been underwritten by a syndicate of banks and is due on September 24, 2009. As at December 31, 2008, the Company had borrowings of \$108.3 million (2007 - nil) on this facility. The average effective interest rate on this facility for the period it was outstanding during 2008 was 4.21% (2007 - 5.69%).

Subsequent to year end, on February 11, 2009, the Company completed arrangements of a refinancing package that will give the Company considerable flexibility in weathering the current market downturn. See note 16.

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Notes to Unaudited Interim Consolidated Financial Statements For the three and twelve months ended December 31, 2008 and 2007

Financial figures presented in the tables that follow are in millions of dollars, except per common share amounts.

10. Employee Benefits

	As at December 31, 2008	As at December 31, 2007
Pension benefits	\$ 9.4	\$ 8.8
Non-pension benefits	27.3	28.4
	\$ 36.7	\$ 37.2

The Company, through its subsidiaries, maintains pension plans that include defined benefit and defined contribution segments available to all salaried employees and a small number of hourly retirees not covered by union pension plans. For the three months ended December 31, 2008, the Company recorded an expense of \$0.8 million for pension benefit costs (2007 – \$0.7 million) and made cash payments of \$0.3 million to fund current service costs (2007 – \$0.4 million). For the twelve months ended December 31, 2008, the Company recorded an expense of \$2.3 million for pension benefit costs (2007 – \$2.2 million) and made cash payments of \$1.6 million to fund current service costs (2007 – \$1.8 million).

The Company also provides non-pension benefits consisting of group life insurance and medical benefits to eligible retired employees, which the Company funds on an as-incurred basis. For the three months ended December 31, 2008, the Company recorded a net gain of \$1.6 million for non-pension benefit costs (2007 – \$3.4 million gain) and made cash payments of \$0.5 million to fund current benefit costs (2007 – \$0.5 million). The Company recorded a non cash gain of \$2.3 related to the Elk Falls sawmill and an expense of \$3.2 related to the rest of the Company. For the twelve months ended December 31, 2008, the Company recorded an expense of \$0.9 million for non-pension benefit costs (2007 – \$0.3 million net gain) and made cash payments of \$2.0 million to fund current benefit costs (2007 – \$2.1 million).

11. Deferred distribution payable

At December 31, 2008 the Company had an unpaid distribution obligation payable to its unitholders of \$17.8 million. The Company can elect to defer payment of this obligation for up to 27 months. As a result of this deferral, the deferred distribution payable is accounted for at its fair value \$17.8 million (\$21.0 million face value). The obligation will be revalued at each reporting date.

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Notes to Unaudited Interim Consolidated Financial Statements For the three and twelve months ended December 31, 2008 and 2007

Financial figures presented in the tables that follow are in millions of dollars, except per common share amounts.

12. Stapled Units

	Stapled Unit Components			Total
	Number	Series A Subordinate Notes	Share Capital (consisting of common and preferred shares)	
Twelve months ended December 31, 2007:				
Balance, December 31, 2006	77,635,254	\$697.0	190.4	887.4
Issuance of Stapled Units on exercise of options	114,889	1.1	0.6	1.7
Balance, December 31, 2007	77,750,143	698.1	191.0	889.1
Twelve months ended December 31, 2008:				
Balance, December 31, 2007	77,750,143	698.1	191.0	889.1
Issuance of Stapled Units on exercise of options	15,297	0.1	-	0.1
Modification of Series A Subordinate Notes	-	(461.6)	-	(461.6)
Transaction costs	-	(0.9)	-	(0.9)
Change in fair value of option to defer interest payment	-	4.1	-	4.1
Change in fair value of option to extend maturity	-	0.6	-	0.6
Balance, December 31, 2008	77,765,440	240.4	191.0	431.4

The Company issues equity by way of Stapled Units, each Stapled Unit consisting of approximately \$8.98 face amount of Series A Subordinate Notes, 100 preferred shares and one common share. The securities comprising a Stapled Unit trade together as Stapled Units and cannot be transferred except with each other as part of a Stapled Unit until the date of maturity of the Series A Subordinate Notes or the payment of the principal amount of the Series A Subordinate Notes following an event of default and expiration of a remedies blockage period.

On December 19, 2008 the holders of the Stapled Units approved a series of note amendments that came into effect on December 31, 2008. The note amendments are as follows: (i) the rate of interest on the Series A Subordinate Notes payable was changed from a fixed 12% per annum to a variable rate between 2% and 12% per annum to be set from time to time based on the Company's distributable cash; (ii) the period over which the Company can defer payments of interest on the notes was reduced from 27 months to 18 months, and the Company may only exercise this deferral right in respect of interest payments for periods where the applicable interest rate on the subordinate notes is 2%; and (iii) replaces the Company's right to elect to pay interest on the subordinate notes by delivering common shares or preferred shares of the Company with the right to elect to pay interest on the notes by delivering Stapled Units.

Each Series A Subordinate Note has been issued with a face amount of \$8.978806569, entitling the holder to an interest payment per unit of between \$0.179576131 and \$1.077456788 per annum (2-12%). The Series A Subordinate Notes are unsecured and subordinate to all credit facilities (see note 9) and debentures. The principal amount of the Series A Subordinate Notes plus accrued and unpaid interest thereon are due on August 31, 2038, unless such date is extended by the Company at the time of the issuance of additional subordinate notes to a date not later than the earlier of: (i) the date of maturity of such additional subordinate notes; and (ii) August 31, 2048, and will be payable by cash or, at the option of the Company, by delivery of common shares to the Subordinate Note Trustee for the benefit of the holders of the subordinate notes.

TIMBERWEST FOREST CORP.

Notes to Unaudited Interim Consolidated Financial Statements For the three and twelve months ended December 31, 2008 and 2007

Financial figures presented in the tables that follow are in millions of dollars, except per common share amounts.

12. Stapled Units (continued)

In accordance with Canadian GAAP, the note amendments have the effect of extinguishing the previous debt associated with the Series A Subordinate Notes and triggered a revaluation of debt on the extinguishment date (December 31, 2008). As a result of this revaluation the Company has recorded a 'Gain on modification of Series A Subordinate Notes' of \$461.6 million on the Consolidated Statement of Operation and Comprehensive Income (loss) with a corresponding write-down to the Series A Subordinate Notes. The write-down has no tax consequence to the holders of the notes.

The revalued Series A Subordinate Notes have been classified by the Company under Canadian GAAP as "held-to-maturity" under CICA Section 3855 'Financial Instruments.' As such, the balance of the Series A Subordinate Notes will be accreted using the effective interest rate method to face value of \$698.2 million to maturity. No accretion was recognized in 2008.

Transaction costs of \$0.9 million have been deferred and netted against the Series A Subordinate Notes and will be amortized using the effective rate method over the life of the Series A Subordinate Notes until they reach maturity.

The option to defer interest distributions to the holders of the Stapled Units for up to 18 months is an embedded derivative under GAAP and is revalued at each reporting date. As at December 31, 2008 the fair value of this option is \$4.1 million.

The option to extend the maturity date on the Series A Subordinate Notes from August 31, 2038 to August 31, 2048 is an embedded derivative under GAAP and is revalued at each reporting date. As at December 31, 2008 the fair value of this option is \$0.6 million.

13. Stock-based Compensation Plans

Under the Company's Stapled Unit Option Plan, the Company may grant options for the purchase of Stapled Units to directors, officers or employees who are in active service or employment of the Company or of any of its subsidiaries. During the quarter ended December 31, 2008, there were 261,844 Stapled Unit options granted at an average exercise price of \$5.45 (2007 – 300 Stapled Unit options were granted at an average exercise price of \$14.71). For the twelve months ended December 31, 2008, 261,844 Stapled Unit options were granted at an average exercise price of \$5.45 (2007 – 339,670 Stapled Unit options were granted at an average exercise price of \$16.46).

The Company has applied the fair value method of accounting for Stapled Unit option grants awarded on or after January 1, 2003. The fair value of each option granted was estimated on the date of grant using the Black-Scholes option pricing model using the following weighted average assumptions:

	2008	2007
Risk-free interest rate	2.7%	4.1%
Expected life (years)	5.0	5.0
Expected volatility	29.2%	21.6%
Dividend yield	3.7%	6.5%
Number of options granted	261,844	339,670
Weighted average fair value of options granted	\$0.81	\$1.85

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13. Stock-based Compensation Plans (continued)

The compensation cost for the 261,844 Stapled Unit options granted between January 1, 2008 and December 31, 2008 is \$212,000 (2007 – 339,670 Stapled Unit options were granted with a compensation cost of \$628,000). The compensation cost of Stapled Unit option awards is amortized against earnings over the three-year vesting period of the underlying options and an expense of \$148,000 and \$302,000 has been recognized in net earnings for the three and twelve months ended December 31, 2008 (2007 – \$92,000 and \$551,000, respectively) with a corresponding credit to contributed surplus.

Under the Company's Distribution Equivalent Plan, the Company awards Stapled Unit option holders an amount equal to actual distributions paid on the Company's Stapled Units. Awards granted under the Distribution Equivalent Plan vest under the same terms that apply to the corresponding options and can only be exercised at the time of exercise of the corresponding options. The Company applies the principles of the fair value-based method of accounting for stock-based compensation to awards granted under this plan.

Awards are accrued on a basis equal to actual distributions paid on the Company's issued and outstanding Stapled Units and are charged to earnings as the underlying Stapled Unit options vest. For the three months ended December 31, 2008, \$0.3 million has been accrued for awards granted under this plan (2007 – \$0.3 million) and \$0.3 million has been amortized against earnings for the quarter (2007 – \$0.3 million). For the twelve months ended December 31, 2008, \$1.1 million has been accrued for awards granted under the plan (2007 – \$1.1 million) and \$1.2 million has been amortized against earnings for this period (2007 – \$1.2 million).

During the three months ended December 31, 2008, no Stapled Unit options were exercised, 26,000 Stapled Unit options with an average exercise price of \$10.91 were cancelled and 107,938 Stapled Unit options with an average exercise price of \$11.90 expired (2007 – 11,910 Stapled Unit options with an average exercise price of \$12.04 were exercised and no Stapled Unit options were cancelled or expired). For the twelve months ended December 31, 2008, a total of 15,297 Stapled Unit options with an average exercise price of \$12.15 were exercised, 35,678 Stapled Unit options with an average exercise price of \$12.28 were cancelled and 122,698 Stapled Unit options with an average exercise price of \$12.30 expired (2007 – 114,889 Stapled Unit options with an average exercise price of \$13.55 were exercised and 8,160 Stapled Unit options with an average exercise price of \$15.41 were cancelled).

14. Financial Instruments

(a) Accounting for financial instruments

TimberWest has classified its cash and cash equivalents as held-for-trading and recorded them at fair value. Accounts receivable, and receivables on the sale of property, plant and equipment, are classified as loans and receivables and measured at amortized cost. The Company's drawings on available credit facilities, accounts payable and accrued liabilities, distribution payable, including interest payable, are classified as other liabilities, all of which are measured at amortized cost.

The carrying values of accounts receivable, accounts payable and accrued liabilities and distribution payable approximate their fair values due to the short term to maturity of these instruments.

The carrying values of receivables on the sale of property, plant and equipment are estimated to approximate their fair values due to their short term to maturity.

The carrying values of drawings on available credit facilities approximate their fair values, as they bear floating interest rates that approximate market rates and have a short term to maturity.

The carrying value of accrued liabilities for future silviculture costs approximate their fair value as determined based on the present value of future cash flows associated with these liabilities.

The distribution payable of \$21 million accrued at the end of 2008 can be deferred for 27 months and as such has been fair valued at \$17.8 million based on the present value of the future disbursement.

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Financial figures presented in the tables that follow are in millions of dollars, except per common share amounts.

14. Financial Instruments (continued)

(a) Accounting for financial instruments (continued)

On December 19, 2008 the holders of the Stapled Units approved a series of note amendments that came into effect on December 31, 2008. These note amendments are further discussed in Note 12 "Stapled Units." In accordance with GAAP, the note amendments have the effect of extinguishing the previous debt associated with the Series A Subordinate Notes and triggered a revaluation of debt on the extinguishment date (December 31, 2008). As a result of this revaluation the Company's Series A Subordinate Notes at December 31, 2008 had a carrying value of \$240.4 million (2007 - \$698.1 million).

The revalued Series A Subordinate Notes have been classified by the Company under GAAP as "held-to-maturity" under CICA Section 3855 'Financial Instruments.' As such, the balance of the Series A Subordinate Notes will be accreted using the effective interest method.

The Series A Subordinate Notes are a component of the Company's Stapled Units, which include one common share, 100 preferred shares and approximately \$8.98 face amount of the Series A Subordinate Notes. The Stapled Units are listed on the Toronto Stock Exchange. The embedded derivative arising from the option to extend the Series A Subordinate Notes for a further 10 year period from 2038 to 2048 is measured at fair value. The fair value of this option is determined by an independent financial firm. The embedded derivative arising from the option to defer the payment of distributions to unitholders for up to 18 months is measured at fair value.

(b) Nature and extent of risks arising from financial instruments

TimberWest is exposed to the following risks as a result of holding financial instruments: credit risk, market risk, and liquidity risk. The following is a description of the risks and how the Company manages its exposure to them.

(i) Credit risk:

Credit risk refers to the risk that a counterparty will default on its contractual obligations resulting in financial loss to the Company. The Company is exposed to credit risk on accounts receivable from customers. To mitigate and manage its credit risk, the Company regularly reviews customer credit limits, monitors the financial status of customers, and assesses the collectability of accounts receivable. In certain offshore markets, the Company requires bank letters of credit or letters of assignment. The maximum exposure to credit risk as at December 31, 2008 is the carrying value of the Company's accounts receivable. As at December 31, 2008, substantially all accounts receivable are current or outstanding for less than 30 days.

(ii) Market risk:

Market risk refers to the risk of loss that may arise from changes in market factors such as interest rates, and foreign exchange rates.

Interest rate risk refers to the risk that the fair value or future cash flows of a financial instrument will fluctuate due to changes in market interest rates.

TimberWest has two credit facilities as at December 31, 2008: the first facility, Tranche A, is long-term financing in the amount of \$216.7 million, due on September 24, 2012; the second facility, Tranche B, is short-term financing in the amount of \$108.3 million, due on September 24, 2009. Under the Tranche A facility, funds are available to the Company in both Canadian and US dollars by way of adjusted prime rate-based loans, bankers' acceptances, loans and letters of credit or guarantee. Under the Tranche B facility, funds are available to the Company in Canadian dollars by way of an adjusted prime rate-based term loan due September 24, 2009. Subsequent to year end on February 11, 2009, the Company completed arrangements of a refinancing package that will give the Company considerable flexibility in weathering the current market downturn. See note 16.

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Notes to Unaudited Interim Consolidated Financial Statements For the three and twelve months ended December 31, 2008 and 2007

Financial figures presented in the tables that follow are in millions of dollars, except per common share amounts.

14. Financial Instruments (continued)

(b) Nature and extent of risks arising from financial instruments (continued)

(ii) Market risk (continued):

The Company normally enters into Bankers' Acceptance for less than 30-day periods for the Tranche A credit facility and could therefore be exposed to fluctuations in interest rates at the Bankers' Acceptance expiration.

For the three months ended December 31, 2008, with other variables unchanged, an interest rate change of 1% per annum related to both of the credit facilities would affect net earnings by approximately \$0.7 million.

Foreign exchange risk refers to the risk that the fair value or future cash flow of a financial instrument will fluctuate because of changes in foreign exchange rate.

TimberWest sells a substantial volume of product outside of Canada (49% of sales for the twelve months ended 2008), all in US dollars. As such, the relative strength of the Canadian dollar versus its US counterpart has an effect on sales and earnings. Results can be adversely affected by a strengthening Canadian dollar. The relative strength of the Japanese yen, European euro, and the Russian ruble also affect the Company's competitiveness in the markets where it sells its products. TimberWest does not hedge its foreign exchange risk.

Cash, accounts receivable, and accounts payable are denominated in US and Canadian dollars. As at December 31, 2008, with other variables unchanged, the effect of a \$0.01 US change per Canadian dollar on cash, accounts receivable, and accounts payable would be less than \$0.1 million.

(iii) Liquidity risk:

Liquidity risk refers to the risk that TimberWest may be unable to generate or obtain sufficient cash or cash equivalents in a timely and cost-effective manner to meet its commitments as they come due.

The Company manages liquidity risk by continuously monitoring and reviewing both actual and forecasted cash flows to maintain adequate cash and cash equivalent balances.

The following table provides a summary of the contractual undiscounted cash flow requirements for financial liabilities as at December 31, 2008. This table details payments due in each of the next five years and thereafter for the Company's revolving credit facilities and outstanding letters of credit:

<i>(in millions of dollars)</i>	2009	2010	2011	2012	2013	2014+	Total
Reflected on the consolidated balance sheets:							
Credit facilities	\$108.3	\$ -	\$ -	\$189.8	\$ -	\$ -	\$298.1
Not reflected on the consolidated balance sheets:							
Outstanding letters of credit	16.8	-	-	-	-	-	16.8
	\$125.1	\$ -	\$ -	\$189.8	\$ -	\$ -	\$314.9

Letters of credit are committed in perpetuity, renew annually and the liability will diminish over time.

The Company has a working capital deficit of \$62.6 million due to the current portion of the term credit facility of \$108.3 million included in the table above.

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15. Capital Management

TimberWest's objectives for managing capital are to safeguard its ability to continue as a going concern, to provide a sufficient return to its unitholders, and to meet external capital requirements on its debt and credit facilities.

The Company manages its capital by monitoring its consolidated debt-to-total capitalization ratio. Debt is the total amount of borrowings on its revolving and term credit facilities on the balance sheet. Total capitalization is calculated as the sum of Series A Subordinate Notes, plus unitholders' equity which includes share capital, contributed surplus, and retained earnings. As the Company's Series A Subordinate Notes trade only as part of the Company's equity instrument, the Stapled Unit, they are not included in the Company's definition of debt.

TimberWest's consolidated debt-total capitalization ratio as at December 31, 2008 was 30:70 as compared to 17:83 as at December 31, 2007.

16. Subsequent event

Subsequent to year-end, on February 11, 2009, the Company announced the completion of a refinancing package that will give the Company considerable flexibility in weathering this downturn. TimberWest has raised \$150 million by way of a 9% five-year convertible debenture issue and finalized a \$250 million, three-year revolving loan agreement with a syndicate of banks. As previously reported, the Company did not expect to remain in compliance with its debt covenants under the loan agreement at the end of the 2008 calendar year. However, the lenders agreed to waive the covenant tests until this refinancing was complete.

The \$150 million of convertible debentures was raised through a \$100 million private placement with two wholly-owned subsidiaries of British Columbia Investment Management Corporation (the "bcIMC Investors") and through a \$50 million rights offering to unitholders. These are five year debentures and are convertible into Stapled Units at \$3.50. Upon conversion, the bcIMC Investors would own 23.7% of the currently issued and outstanding Stapled Units. The convertible debentures pay interest quarterly at 9% with the first interest payment due on April 15, 2009.

The net proceeds of the rights offering and private placement are being used by the Company to permanently repay \$75 million of indebtedness under its existing bank credit facilities, with the remainder being used to reduce indebtedness under the Company's revolving credit facilities. The new \$250 million three-year revolving credit agreement has been filed on SEDAR and the key terms are summarized below:

- Pricing is 600 bps over BA rates, or approximately 7% all in,
- The facility is secured,
- The financial covenants include a minimum EBITDA test, which is negative for 2009 to give the Company flexibility in what we see as a challenging year, and
- The other financial covenants include a tangible net worth test and a loan to book and market value test.

The 2008 costs related to this refinancing were \$1.1 million and were deducted from distributable cash. Had this refinancing taken place in 2008, the Company's senior debt would have approximated \$117 million under the \$250 million revolving credit facility.

17. Comparative figures

Certain comparative figures have been reclassified to conform to the current year presentation.

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Supplemental Information

Unaudited

Three months ended
December 31
2008 2007

Twelve months ended
December 31
2008 2007

Sales Revenue by Product

(in millions of dollars)

	Three months ended December 31		Twelve months ended December 31	
	2008	2007	2008	2007
Log sales				
Domestic	\$ 14.8	\$ 17.2	\$ 68.5	\$ 122.1
Export – Asia	17.1	11.8	68.0	82.4
Export – US	3.0	1.4	10.9	41.9
Total log sales	34.9	30.4	147.4	246.4
Real estate	0.3	65.3	11.8	67.1
Other	0.7	0.8	4.5	4.9
	\$ 35.9	\$ 96.5	\$ 163.7	\$ 318.4

Sales Volume

Logs (thousand m³)

Domestic	272.9	187.5	1,077.4	1,417.8
Export – Asia	145.7	123.0	686.8	734.5
Export – US	46.6	12.5	175.9	488.9
	465.2	323.0	1,940.1	2,641.2

Log Sales Mix (thousand m³)

Fir	284.0	151.8	1,253.3	1,697.7
Hembal	131.5	99.7	468.1	573.8
Cedar	18.4	44.8	103.8	204.9
Other	31.3	26.7	114.9	164.8
	465.2	323.0	1,940.1	2,641.2

Production Volume

Logs (thousand m³)

Public tenures	35.1	75.9	265.4	452.4
Private timberlands	414.3	212.4	1,569.1	2,226.6
	449.4	288.3	1,834.5	2,679.0

TIMBERWEST FOREST CORP.

Discontinued Operations

Unaudited

	Three months ended December 31		Twelve months ended December 31	
	2008	2007	2008	2007
Sales Revenue by Product <i>(in millions of dollars)</i>				
Lumber, wood chips and other	\$ -	\$ 23.1	\$ 42.4	\$ 90.6
Sales Volume				
Lumber (million fbm)	-	34.4	55.6	125.3
Production Volume				
Lumber (million fbm)	-	23.4	43.3	122.7

Earnings (Loss) Before Interest, Taxes, Depreciation and Amortization (EBITDA)*:

(in millions of dollars)

	Three months ended December 31		Twelve months ended December 31	
	2008	2007	2008	2007
Net earnings (loss) from continuing operations	\$ 312.3	\$ 14.8	\$ 240.7	\$ (13.3)
Add (deduct):				
Interest on Series A Subordinate Notes paid to unitholders	17.8	21.0	80.8	83.7
Interest on long-term debt	1.5	2.5	7.6	3.7
Interest on short-term debt	1.1	1.0	2.6	11.2
Income tax recovery	120.3	(18.7)	114.5	(22.2)
Depreciation, depletion and amortization	1.1	1.0	4.5	5.4
Amortization of deferred financing costs	-	0.1	0.3	0.9
Gain on modification of Series A Subordinate Notes	(461.6)	-	(461.6)	-
Earnings (loss) from continuing operations before Interest, Taxes, Depreciation and Amortization	(7.5)	21.7	(10.6)	69.4
Earnings (loss) from discontinued operations before Interest, Taxes, Depreciation and Amortization	2.3	(19.3)	(5.4)	(21.1)
Earnings (Loss) before Interest, Taxes, Depreciation and Amortization	(5.2)	2.4	(16.0)	48.3

* EBITDA does not have a standardized meaning prescribed by Canadian generally accepted accounting principles and may not be comparable to similar measures presented by other companies. Management believes that the presentation of this measure will enhance an investor's understanding of the Company's operating performance.

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TIMBERWEST FOREST CORP.

About TimberWest

TimberWest Forest Corp. is uniquely positioned as western Canada's largest private timber and land management company. The Company owns in fee simple approximately 322,000 hectares or 796,000 acres of private land and is in the business of selling timber products and real estate.

TimberWest Forest Corp.

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Stapled Units of TimberWest Forest Corp. are traded on the Toronto Stock Exchange under the symbol: TWF.UN

Visit us at our web site: www.timberwest.com

