



## **TIMBERWEST FOREST CORP.**

For immediate release: August 14, 2008

### **TIMBERWEST RELEASES 2008 SECOND QUARTER RESULTS AND ANNOUNCES A REVIEW OF DISTRIBUTION POLICY AND POTENTIAL CAPITAL REORGANIZATION**

Vancouver (BC) – “Market conditions continue to be extremely difficult and TimberWest is therefore staying the course with its harvest deferral strategy,” said Paul McElligott, President and CEO of TimberWest Forest Corp. With log sales volumes down 24% in Q2, 2008 relative to the same period in 2007 and sales realizations down 18%, the Company generated a Distributable Cash loss of \$3.2 million in the quarter, after taking a restructuring charge in May of \$7.7 million for the permanent closure of Elk Falls, its last remaining sawmill. Non-core real estate sales were \$4.9 million during the quarter. Stronger real estate sales, lower harvesting costs, and aggressive management of working capital resulted in the Company ending the quarter with \$211.9 million of debt, \$6.9 million higher than at the end of the first quarter. The Company remained in compliance with all of its debt covenants for the quarter, however, it is possible that the Company may not be able to remain in compliance with its covenants later in the year. “We continue to work on resolving this issue and by the end of the third quarter expect to either amend the existing facilities or put new ones in place,” said Mr. McElligott.

#### **Safety**

Safety continues to be a priority for the Company and its MIR results continue to show improvement at 0.61 for the first half of 2008 compared to 1.19 for the same period last year. In addition, 82 of its 109 contractors are now SAFE Certified by the BC Forest Safety Council and the Company expects the remainder to achieve their SAFE company certifications by year end. Beginning in 2009, only SAFE Certified contractors will be permitted to work on TimberWest’s land base. TimberWest successfully concluded its Safe Company certification review audit during the quarter with a score of 97%.

#### **Real Estate Operational Results**

The Company is pleased with the momentum of the sales program so far this year. Net proceeds from the sale of non-core real estate for the second quarter of 2008 were \$4.6 million, or \$10,000 per acre compared with \$0.3 million or \$6,800 per acre a year earlier. Net sales proceeds on a year to date basis were \$7.0 million, or \$14,000 per acre compared with \$0.5 million or \$7,800 per acre a year earlier.

During the quarter, TimberWest hosted analysts for a presentation and tour of its real estate assets. It was well received and a copy of the presentation can be found on TimberWest’s website. A few highlights from that presentation include the fact that TimberWest owns approximately 40% of the southeast quadrant of Vancouver Island; part or all of 82 lake bottoms and 75 kilometers of waterfront; that 94% of the population of Vancouver Island lives within 20 minutes of its development nodes; and that over \$6.3 billion in major private and public construction projects are currently underway throughout Vancouver Island.

Many of TimberWest’s development properties are in the process of being rezoned. During the quarter, the Provincial Agricultural Land Commission approved the exclusion from the Agricultural Land Reserve of 166 hectares (410 acres) of TimberWest land in Campbell River in return for including 480 hectares (1,186 acres) of higher quality agricultural land in the Reserve. The excluded land, between Campbell River Airport and the Island Highway, has been serviced with water and sewer facilities and has been designated for industrial use in the City’s Official Community Plan. It will be marketed to manufacturing, distribution, and service businesses best able to benefit from its excellent location. Discussions also continued with potential joint venture partners on different development nodes during the quarter.



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## Logging and Lumber Manufacturing Operational Results

Weak North American log markets, high shipping costs to Asia and the strong Canadian dollar depressed sales realizations for all species. Fir and hemlock values remained low and cedar prices have also begun to come off with demand deteriorating in the US. The Company booked a value recovery of \$2.4 million for the quarter reflecting an improvement in the ending value of the inventory compared to last quarter.

As a result of the harvest deferral strategy, log sales volumes were 678,000 m<sup>3</sup> for the quarter, down 24% from Q2, 2007. For the first half of 2008, log sales volumes are approximately 1.0 million m<sup>3</sup>, down 40% compared to the first half of 2007. Exports to Japan remain TimberWest's highest value sales, with volumes into that market at 192,000 m<sup>3</sup> for the quarter and 298,000 m<sup>3</sup> for the first half. The Company is making good progress on increasing its fir volumes to the Japanese plywood sector and its prospects for other Asian markets look promising.

Despite lower harvesting volumes, production costs are approximately \$10 per m<sup>3</sup> lower than Q2 last year. About half of this cost reduction represents a timing difference between quarters related to road construction, and a higher proportion of more costly helicopter logging in the second quarter of 2007. The rest of the cost savings is attributable to the fact that the Company has used competitive bid contractors for much of its harvest this year instead of higher cost long term contractors.

In a decision dated July 14, 2008, Arbitrator McPhillips determined that, even though the collective agreement between TimberWest and the United Steelworkers of America ("USWA") had expired, upon the insolvency of a Woodlands Contractor, the employees of the Woodlands Contractor automatically revert to TimberWest as employees. TimberWest has initiated an appeal of the McPhillips decision. Despite this ruling, the Company said it has no intention of resuming logging operations and will seek alternate Woodlands Contractors once market conditions improve. At the present time there are no immediate plans to seek replacement Woodlands Contractors. TimberWest is committed to harvesting its land through the contractor model, however it is presently without a collective agreement with the USWA. It remains the intention of TimberWest to negotiate amendments to the collective agreement to improve the viability of the contractor model through sub-division of the current operations. "We believe safety will be enhanced, logging costs will be lowered, and former TimberWest employees will be provided with a more stable employment base as they transfer to mid- sized logging contractors," said Mr. McElligott.

In May, an audit team from KPMG Performance Registrar Inc. carried out its second five-year re-certification audit of TimberWest's public and private timberland operations under the SFI and ISO certifications. The re-certification audit involved 52 days of comprehensive audit work for the SFI/ISO certification team. "The results were simply excellent," said Mr. McElligott. "The audit did not raise even a single finding of minor non-conformance. I am extremely proud of this result and of the commitment everyone at TimberWest has shown for the stewardship of the asset base and the sustainability of its excellent forest practices."

The Elk Falls sawmill in Campbell River was permanently closed on May 9, 2008. At quarter end, mill management had sold all but 7.4 million board feet of lumber. Site decommissioning is underway. The remaining lumber was sold by the end of July and TimberWest expects the decommissioning and demolition to be substantially complete by the end of November. Modest net proceeds from machinery and equipment sales are anticipated. "All of the mill employees are to be congratulated for winding down this operation in a safe and professional manner," said Mr. McElligott.

In addition to the \$7.7 million Elk Falls restructuring costs, the Company expects to incur an additional \$8 million of restructuring charges in 2008 related to contractor issues, sub-division and chip commitments.



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## Outlook

TimberWest believes that weak conditions will persist for the balance of 2008 and 2009. Specifically the Company anticipates weak log markets and a strong Canadian dollar. In order to maximize unitholder value in this climate of weak prices, the Company expects to continue to defer harvests and log at a rate that is about 60% of our normal levels. Based on TimberWest's view of the markets in 2009, the Company expects to continue to defer the harvest next year as well. As communicated in previous unitholder material, the Company believes the harvest deferral strategy is the right response in today's market conditions. With the combination of higher projected future log prices, the incremental volume growth of the trees, and the expectation of lower projected harvesting costs, we believe unitholder value is enhanced by leaving the trees to grow. By reducing harvests when margins are low and increasing harvests when margins are high, the net asset value of the Company will increase.

"We also continue to believe that our real estate strategy is the right long term approach for unitholders," added Mr. McElligott. "We will not sell core development properties before their time. Planning and zoning will enhance real estate values significantly on the development lands and over time raise the value of the entire portfolio. TimberWest's 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."

Looking beyond these near term market challenges, the Company expects to see demand and pricing for log and lumber products in the region improve when US housing activity returns to more normal levels and as Asian countries continue to diversify their supply sources. This view is based, in part, upon the Company's assessment of the positive demographics in the US, which should result in the return to a strong housing market. In addition, the impact of the inevitable future supply shortages caused by the mountain pine beetle infestation in Western Canada, harvest reductions in Eastern Canada, expectations regarding continuing growth in demand for wood products in Asia and escalating Russian log export taxes will all positively affect demand and pricing. When margins improve, the Company will go back and harvest the undercut.

As a result of weak business conditions, TimberWest has not been generating sufficient distributable cash to meet distribution requirements and expects this to be the case through 2009. While the Company is paying the October 15, 2008 distribution, the Company is concerned about continuing to borrow to fund distributions at the current level beyond October. The Company will complete more detailed short and long term business planning by this fall and will share with unitholders our views on the best course for managing this business to maximize long-term value. This will include an outline of our thinking regarding distribution policy in 2009 and beyond. During the business planning review, the Company will consider a range of options from a deferral of distributions to a reorganization of the capital structure. A reorganization would be designed to better match the underlying cash flows of the real estate and timberland businesses with the components of the capital structure. "The Company is confident that the value of these businesses is in excess of its current trading price and will remain focused on growing long-term unitholder value, while preserving a strong balance sheet for the future," said Mr. McElligott.

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## Distributable Cash

<i>(in millions of dollars)</i>	Three months ended June 30		Six months ended June 30	
	2008	2007	2008	2007
Net loss from continuing operations	\$ (18.9)	\$ (4.7)	\$ (41.8)	\$ (2.0)
Interest on Series A Subordinate Notes owned by unitholders	21.0	20.9	42.0	41.8
Earnings from continuing operations available for distribution	2.1	16.2	0.2	39.8
Future income tax recovery	(0.5)	(2.3)	(5.2)	(2.6)
Earnings (loss) from continuing operations available for distribution before provision for future income taxes	1.6	13.9	(5.0)	37.2
Add (deduct):				
Depreciation, depletion and amortization	1.4	1.8	2.7	3.7
Proceeds from sale of property, plant and equipment	4.6	5.5	7.0	5.7
Gain on sale of property, plant and equipment	(3.3)	(5.3)	(3.8)	(5.4)
Additions to property, plant and equipment	(0.3)	(0.8)	(0.8)	(1.3)
Other non-cash items	0.3	0.5	0.7	1.0
	2.7	1.7	5.8	3.7
Distributable cash from continuing operations*	4.3	15.6	0.8	40.9
Distributable cash from discontinued operations	(7.5)	(2.0)	(7.9)	(0.4)
Distributable cash	\$ (3.2)	\$ 13.6	\$ (7.1)	\$ 40.5

\* 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

### Per Stapled Unit amounts:

*(in dollars)*

<i>Basic and diluted earnings (loss) from continuing operations available for distribution before provision for future income taxes per weighted average Stapled Unit</i>	\$ 0.02	\$ 0.18	\$ (0.06)	\$ 0.48
<i>Basic and diluted distributable cash from continuing operations per weighted average Stapled Unit</i>	\$ 0.06	\$ 0.20	\$ 0.01	\$ 0.53
<i>Basic and diluted distributable cash from discontinued operations per weighted average Stapled Unit</i>	\$ (0.10)	\$ (0.03)	\$ (0.10)	\$ (0.01)
<i>Basic and diluted distributable cash per weighted average Stapled Unit</i>	\$ (0.04)	\$ 0.17	\$ (0.09)	\$ 0.52
<i>Cash distributions paid per Stapled Unit</i>	\$ 0.27	\$ 0.27	\$ 0.54	\$ 0.54

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The following table provides a reconciliation of cash flow from operations before changes in working capital to distributable cash from continuing operations:

<i>(in millions of dollars)</i>	Three months ended June 30		Six months ended June 30	
	2008	2007	2008	2007
Cash used in continuing operations	\$ (13.7)	\$ (38.9)	\$ (35.4)	\$ (44.1)
Add (deduct):				
Change in non-cash working capital	(7.3)	28.2	(11.8)	38.2
Interest on Series A Subordinate Notes owned by unitholders	21.0	20.9	42.0	41.8
Proceeds from sale of property, plant and equipment	4.6	5.5	7.0	5.7
Additions to property, plant and equipment	(0.3)	(0.8)	(0.8)	(1.3)
Other non-cash items	—	0.7	(0.2)	0.6
	<b>18.0</b>	<b>54.5</b>	<b>36.2</b>	<b>85.0</b>
Distributable cash from continuing operations	<b>4.3</b>	15.6	<b>0.8</b>	40.9
Distributable cash from discontinued operations	<b>(7.5)</b>	(2.0)	<b>(7.9)</b>	(0.4)
Distributable cash	\$ <b>(3.2)</b>	\$ 13.6	\$ <b>(7.1)</b>	\$ 40.5

Distributable cash from continuing operations includes consolidated net earnings (loss) from continuing operations, 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 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 from continuing operations 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 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.

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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
<b>Distributable Cash</b>						
<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		(5.6)	9.3	(1.7)	35.9	12.0
Fourth quarter		55.4	27.5	29.7	18.1	9.0
	\$ (7.1)	\$ 90.3	\$ 103.8	\$ 67.3	\$ 125.2	\$ 51.4
<b>Distributable Cash per Stapled Unit<sup>1</sup></b>						
<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		(0.07)	0.12	(0.02)	0.47	0.15
Fourth quarter		0.71	0.35	0.38	0.24	0.12
	\$ (0.09)	\$ 1.16	\$ 1.34	\$ 0.87	\$ 1.64	\$ 0.67

<sup>1</sup> 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 June 30		Six months ended June 30	
	2008	2007	2008	2007
Sales	\$ 57.0	\$ 82.0	\$ 89.0	\$ 161.8
Operating earnings from continuing operations	4.1	12.4	0.1	38.6
Operating earnings - % of sales	7%	15%	0.1%	24%
Earnings before interest, taxes, depreciation and amortization <sup>2</sup> from continuing operations	5.5	19.5	2.8	48.2
Earnings before interest, taxes, depreciation and amortization from continuing operations per basic and diluted weighted average Stapled Unit <sup>2</sup>	0.07	0.25	0.04	0.62
Loss before interest, taxes, depreciation and amortization from discontinued operations	(7.5)	(2.0)	(7.9)	(0.4)
Loss before interest, taxes, depreciation and amortization from discontinued operations per basic and diluted weighted average Stapled Unit <sup>2</sup>	(0.10)	(0.02)	(0.11)	(0.01)
Earnings (loss) before interest, taxes, depreciation and amortization	(2.0)	17.5	(5.1)	47.8
Earnings (loss) before interest, taxes, depreciation and amortization per basic and diluted weighted average Stapled Unit <sup>2</sup>	(0.03)	0.23	(0.07)	0.61
Distributable cash	\$ (3.2)	\$ 13.6	\$ (7.1)	\$ 40.5

Sales revenues from continuing operations for the three months ended June 30, 2008 were lower compared to the second quarter of 2007 due to significant decreases in log sales volumes and sales realizations. Real estate sales were ahead of the same quarter last year. Similarly, year to date sales volumes and realizations for logs were well below the same period last year, with real estate sales ahead of year to date June 2007.

Weakness in the US housing market and a continuing strong Canadian dollar have continued to negatively affect log sales in 2008.

Operating earnings from continuing operations as a percentage of sales were lower for the quarter and year to date compared to the prior periods and is due to the sharp decline in revenues.

<sup>2</sup> 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.



# TIMBERWEST FOREST CORP.

## 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 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.

### Cash Distribution

On August 14, 2008, TimberWest announced a distribution of \$0.269 per Stapled Unit, payable October 15, 2008 to unitholders of record on October 1, 2008. From inception to June 30, 2008, the Company has generated distributable cash of \$851.1 million while, including the July 15, 2008 distribution of \$21.0 million, the Company has paid out \$859.4 million to unitholders.

Due to the seasonal and cyclical nature of TimberWest’s business, cash flows may fluctuate from quarter to quarter and from year to year. One of the objectives of TimberWest’s cash distribution policy is to make even distributions to unitholders, which may differ from actual cash generated during the period. Any difference will be added to or subtracted from either cash reserves or available credit facilities.

### Quarterly Conference Call

TimberWest will hold a conference call at 7:30am PDT (10:30am EDT) on Friday, August 15, 2008, to discuss results of the second quarter. To access the conference call, listeners should dial 1-800-920-4317. For those unable to participate in the live call, a recording of the call will be available until August 29, 2008, and can be accessed at 1-800-558-5253 using code 21387315. 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.

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## Operating Highlights

Timberland Operations:	Three months ended June 30		Six months ended June 30	
	2008	2007	2008	2007
<b>Log Sales Revenue</b> (in millions of dollars)				
Domestic	\$ 26.4	\$ 44.8	\$ 39.4	\$ 82.8
Export – Asia	20.6	19.1	34.1	46.2
Export – US	3.5	16.4	5.2	29.6
Total log sales	\$ 50.5	\$ 80.3	\$ 78.7	\$ 158.6
<b>Log Sales Realizations</b> (\$/m <sup>3</sup> )				
Domestic	68	84	68	84
Export – Asia	90	117	94	121
Export – US	56	83	62	86
	74	90	77	92
<b>Log Sales Volume</b> (thousand m <sup>3</sup> )				
Domestic	387.4	530.7	581.2	987.6
Export – Asia	227.8	163.2	362.3	382.0
Export – US	63.0	198.4	84.4	345.8
	678.2	892.3	1,027.9	1,715.4
<b>Log Sales Mix</b> (thousand m <sup>3</sup> )				
Fir	476.8	590.9	705.8	1,198.4
Hembal	131.7	187.0	210.7	313.9
Cedar	39.3	69.3	55.0	112.1
Other	30.4	45.1	56.4	91.0
	678.2	892.3	1,027.9	1,715.4
<b>Log Production Volume</b> (thousand m <sup>3</sup> )				
Public tenures	87.4	170.7	194.8	287.1
Private timberlands	514.5	931.6	791.4	1,895.0
	601.9	1,102.3	986.2	2,182.1
<b>Log Production Costs</b> (\$/m <sup>3</sup> )				
	60	70	65	65
<b>Timberland operating margin</b> (% of log sales)				
	11%	22%	7%	31%

Log sales revenues for the three and six months ended June 30, 2008, were down compared to sales revenues for the same periods of 2007 due to overall poor log markets and depressed prices, affirming the Company's decision to lower harvest levels in 2008.

Logging production costs were \$10 per m<sup>3</sup> lower than the same quarter in 2007 primarily due to location and timing of harvest contributing to lower road building costs and lower cost competitive bid contractors performing the work. On a year-to-date basis, production costs are comparable on a per m<sup>3</sup> basis to 2007. Lower contractor costs have been offset by higher indirect and regional costs which are negatively impacted by lower volumes.

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<b>Real Estate Business Unit:</b>	<b>Three months ended June 30</b>		<b>Six months ended June 30</b>	
	<b>2008</b>	<b>2007</b>	<b>2008</b>	<b>2007</b>
Real Estate Sales <i>(in millions of dollars)</i>	\$ 4.9	\$ 0.3	\$ 7.7	\$ 0.6
Real Estate Net Proceeds <i>(in millions of dollars)</i>	4.6	0.3	7.0	0.5
Real Estate Net Proceeds <i>(\$/acre)</i>	10,081	6,792	14,339	7,808

Real estate sales in the second quarter of 2008 comprised four property sales from non-core real estate assets.

	<b>Three months ended June 30</b>		<b>Six months ended June 30</b>	
	<b>2008</b>	<b>2007</b>	<b>2008</b>	<b>2007</b>
<b>Earnings (Loss) Before Interest, Taxes, Depreciation and Amortization (EBITDA)*</b> <i>(in millions of dollars)</i>				
Net loss from continuing operations	\$ (18.9)	\$ (4.7)	\$ (41.8)	\$ (2.0)
Add (deduct):				
Interest on Series A Subordinate Notes paid to unitholders	21.0	20.9	42.0	41.8
Interest on long-term debt	1.9	0.4	4.4	0.5
Interest on short-term debt	0.6	3.4	0.7	6.8
Income tax recovery	(0.5)	(2.3)	(5.2)	(2.6)
Depreciation, depletion and amortization	1.3	1.7	2.5	3.4
Amortization of deferred financing costs	0.1	0.1	0.2	0.3
Earnings from continuing operations before Interest, Taxes, Depreciation and Amortization	5.5	19.5	2.8	48.2
Loss from discontinued operations before Interest, Taxes, Depreciation and Amortization	(7.5)	(2.0)	(7.9)	(0.4)
Earnings (Loss) before Interest, Taxes, Depreciation and Amortization	(2.0)	17.5	(5.1)	47.8

\* 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 June 30		Six months ended June 30	
	2008	2007	2008	2007
<b>Elk Falls Sawmill:</b>				
<b>Sales Revenue by Product</b> <i>(in millions of dollars)</i>				
Lumber	\$ 20.0	\$ 19.0	\$ 29.8	\$ 46.3
Wood chips and residuals	1.7	2.5	4.6	6.8
<b>Sales Realizations</b>				
Lumber (\$/mfbm)	641	605	618	641
Wood chips (\$/m <sup>3</sup> )	45	48	43	46
<b>Sales Volume</b>				
Lumber (million fbm)	31.2	31.4	48.2	72.2
Wood chips and residuals (thousand m <sup>3</sup> )	35.9	49.1	101.9	140.0
<b>Lumber Production Volume (million fbm)</b>	<b>14.9</b>	<b>23.2</b>	<b>43.3</b>	<b>69.8</b>

Sales realizations and volumes for the three months ended June 30, 2008, were comparable to the second quarter of 2007. The sawmill shutdown on May 9, 2008 with lumber production ceasing and the planermill finishing and packaging lumber until mid June. All lumber had been shipped from the sawmill site by the end of the second quarter, with final sales of lumber inventory scheduled for July/August 2008.

## Financial Position

<b>Summary of Financial Position from Continuing Operations</b> <i>(in millions of dollars)</i>	As at June 30, 2008	As at December 31, 2007
Cash and cash equivalents	\$ —	\$ 1.2
Current assets	41.4	47.2
Current liabilities	96.1	36.2
Current liabilities (excluding short-term debt)	46.1	36.2
Long-term debt	161.9	187.5
Long-term liabilities	155.4	159.6
Series A Subordinate notes owned by unitholders	698.2	698.1
Unitholder's equity	158.4	210.8

Trade accounts receivable increased to \$9.7 million at June 30, 2008, compared to \$4.9 million at the end of 2007, due to increased log shipments in the second quarter of 2008 compared to the fourth quarter of 2007. Log inventory was \$23.8 million at June 30, 2008, compared to \$32.9 million at the end of 2007. This reduction is primarily due to reduced log harvest levels during this period. Prior to January 1, 2008, TimberWest recorded inventories at a lower of average cost and net realizable value on an aggregate basis for each of logs and for lumber. 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 an additional \$2.3 million decrease of log inventory values as at June 30, 2008 compared to the end of 2007. Prepaid expenses and other current assets were \$5.7 million at June 30, 2008, compared to \$6.1 million at the end of 2007, reflecting a decrease in non-trade receivables.

Property, plant and equipment were \$1,225.0 million as at June 30, 2008, \$5.0 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 \$3.3 million, as well as a provision for depreciation of capital assets of \$2.5 million recorded during this period. These items were offset in part by capital additions of \$0.8 million, comprised primarily of logging roads.

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Other assets were \$1.8 million at June 30, 2008, comparable to the balance of \$2.0 million at December 31, 2007.

Current liabilities as at June 30, 2008, include borrowings of \$50.0 million on the Tranche B short-term unsecured revolving credit facility. Excluding the short-term credit facility, current liabilities at June 30, 2008 were \$46.1 million. This variance in current liabilities (excluding short-term debt) can be attributed to a \$9.9 million increase in accounts payable and accrued liabilities primarily attributed to increased trade payables and accruals for property taxes.

As at June 30, 2008, the Company had combined borrowings of \$211.9 million on its available credit facilities, including borrowings of \$161.9 million on its Tranche A \$216.7 million long-term unsecured revolving facility, and \$50.0 million on its Tranche B \$108.3 million short-term unsecured revolving facility. In addition, the Company had commitments of \$17.3 million relating to outstanding letters of credit issued under its Tranche A \$216.7 million long-term unsecured revolving facility. The Company's \$16.3 million demand credit facility expired on June 30, 2008 and was not renewed. TimberWest is currently in compliance with all of its debt covenants, however, it is possible that TimberWest may not be able to remain in compliance with its debt to EBITDA covenant later in 2008.

Other long-term liabilities as at June 30, 2008, included a silviculture liability of \$3.4 million, a \$37.8 million liability relating to employee future benefits and a future income tax liability of \$114.2 million. The silviculture liability and the liability relating to employee future benefits are comparable to balances as at December 31, 2007. The decrease in the liability for future income taxes from the balance of \$119.2 million at December 31, 2007, is primarily attributable to a \$4.3 million future income tax recovery to reflect the effects of changes in the provincial income tax rates that were substantively enacted during 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 June 30, 2008, the carrying value of the Series A Subordinate Note liability was \$698.2 million.

During the quarter ended June 30, 2008, no Stapled Unit options were granted and options to purchase 12,577 Stapled Units were exercised for proceeds of \$0.1 million and 8,178 options were cancelled. During the six months ended June 30, 2008, no Stapled Units options were granted, options to purchase 15,297 Stapled Units were exercised for proceeds of \$0.1 million and 9,678 options were cancelled. As at August 14, 2008, the Company had 1,127,180 granted and outstanding Stapled Unit option awards and 77,765,440 issued and outstanding Stapled Units.

Current assets from discontinued operations as at June 30, 2008, included accounts receivables of \$1.3 million, lumber inventories of \$3.9 million and prepaid expenses and other current assets of \$0.2 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 \$3.6 million as at June 30, 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.

# TIMBERWEST FOREST CORP.

## Cash Flow and Liquidity

### Selected Cash Flow Items

(in millions of dollars)

	Three months ended June 30		Six months ended June 30	
	2008	2007	2008	2007
<b>Cash provided by (used in):</b>				
<b>Operating activities from continuing operations:</b>				
Cash used in operations before changes in non-cash working capital	\$ (21.0)	\$ (10.7)	\$ (47.2)	\$ (5.9)
Changes in non-cash working capital	7.3	(28.2)	11.8	(38.2)
	<b>(13.7)</b>	<b>(38.9)</b>	<b>(35.4)</b>	<b>(44.1)</b>
<b>Financing activities from continuing operations:</b>				
Issuance of Stapled Units on exercise of options	0.1	0.1	0.1	1.4
Revolving credit facilities	6.9	24.5	24.4	24.5
Demand credit facility	—	1.2	—	1.2
	<b>7.0</b>	<b>25.8</b>	<b>24.5</b>	<b>27.1</b>
<b>Investing activities from continuing operations:</b>				
Proceeds from sale of other assets	4.6	5.5	7.0	5.7
Additions to property, plant and equipment	(0.3)	(0.8)	(0.8)	(1.3)
Other assets	0.1	0.1	0.2	0.3
	<b>4.4</b>	<b>4.8</b>	<b>6.4</b>	<b>4.7</b>
<b>Cash provided by discontinued operations:</b>	<b>2.2</b>	<b>4.4</b>	<b>3.3</b>	<b>3.0</b>
<b>Decrease in cash and cash equivalents</b>	<b>\$ (0.1)</b>	<b>\$ (3.9)</b>	<b>\$ (1.2)</b>	<b>\$ (9.3)</b>

During the three months ended June 30, 2008, the Company issued 12,577 Stapled Units on the exercise of Stapled Unit options for net proceeds of \$0.1 million, compared to the issuance of 8,084 Stapled Units on the exercise of Stapled Unit options for net proceeds of \$0.1 million in the comparative quarter in 2007. During the second quarter of 2008, \$6.9 million was borrowed on available credit facilities, compared to \$25.7 million that was borrowed on available credit facilities during the same period in 2007.

For the six months ended June 30, 2008, the Company issued 15,297 Stapled Units on the exercise of Stapled Unit options for net proceeds of \$0.1 million, compared to the issuance of 95,546 Stapled Units on the exercise of Stapled Unit options for net proceeds of \$1.4 million in the comparative period in 2007. During the first six months of 2008, \$24.4 million was borrowed on available credit facilities, compared to \$25.7 million that was borrowed on available credit facilities during the same period in 2007.

In the second quarter of 2008, the Company received net proceeds of \$4.6 million from the sale of other assets, primarily from the sale of higher use properties, and incurred \$0.3 million for capital expenditures, primarily for the construction of logging roads. For the six months ended June 30, 2008, the Company received net proceeds of \$7.0 million from the sale of other assets, primarily from the sale of higher use properties, and incurred \$0.8 million for capital expenditures, primarily for the construction of logging roads.

As at June 30, 2008, the principal amount of TimberWest's total debt<sup>3</sup> outstanding was \$211.9 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 ratio<sup>3</sup> as at June 30, 2008 was 20:80, compared to 17:83 as at December 31, 2007.

Cash provided by discontinued operations was the result of changes in non-cash working capital from operating activities.

<sup>3</sup> 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.



## TIMBERWEST FOREST CORP.

Total debt facilities available to the Company as at June 30, 2008, were \$325.0 million, comprised of \$108.3 million available under Tranche B, a short-term revolving facility due September 24, 2008 and \$216.7 million available under Tranche A, a long-term revolving facility due September 24, 2012. As at June 30, 2008 the Company had commitments of \$17.3 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 revolving facility.

### **Internal Controls over Financial Reporting**

During the quarter ended June 30, 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, including qualitative disclosure at the end of 2008, and throughout 2009 and 2010, and with adoption of IFRS on January 1, 2011.

### **Forward Looking Statements**

*The statements which are not historical facts contained in this release 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, actions of competitors, interest rate and foreign currency fluctuations, regulatory, harvesting fee and trade policy changes and other actions by governmental authorities, 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.*



# TIMBERWEST FOREST CORP.

## 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 June 30		Six months ended June 30	
	2008	2007	2008	2007
Sales	\$ 57.0	\$ 82.0	\$ 89.0	\$ 161.8
Operating costs and expenses:				
Cost of sales	48.3	63.2	80.1	110.8
Selling, administrative and other	3.3	4.7	6.3	9.0
Depreciation, depletion and amortization	1.3	1.7	2.5	3.4
	52.9	69.6	88.9	123.2
Operating earnings from continuing operations	4.1	12.4	0.1	38.6
Interest expense:				
Series A Subordinate Notes owned by unitholders	21.0	20.9	42.0	41.8
Long-term debt	1.9	0.4	4.4	0.5
Short-term debt	0.6	3.4	0.7	6.8
	23.5	24.7	47.1	49.1
Amortization of deferred financing costs	0.1	0.1	0.2	0.3
Other income	(0.1)	(5.4)	(0.2)	(6.2)
	23.5	19.4	47.1	43.2
Loss before income taxes from continuing operations	(19.4)	(7.0)	(47.0)	(4.6)
Income tax recovery (note 4)	(0.5)	(2.3)	(5.2)	(2.6)
Net loss and comprehensive loss from continuing operations	(18.9)	(4.7)	(41.8)	(2.0)
Net loss and comprehensive loss from discontinued operations	(7.5)	(2.6)	(7.9)	(1.6)
Net loss and comprehensive loss	\$ (26.4)	\$ (7.3)	\$ (49.7)	\$ (3.6)
Basic and diluted loss from continuing operations per common share (note 5)	\$ (0.24)	\$ (0.06)	\$ (0.54)	\$ (0.03)
Basic and diluted loss from discontinued operations per common share	\$ (0.10)	\$ (0.03)	\$ (0.10)	\$ (0.02)
Basic and diluted loss per common share (note 5)	\$ (0.34)	\$ (0.09)	\$ (0.64)	\$ (0.05)

## Consolidated Statements of Retained Earnings (Deficit)

(in millions of dollars)  
Unaudited

	Three months ended June 30		Six months ended June 30	
	2008	2007	2008	2007
Retained earnings (deficit), beginning of period, as previously reported	\$ (7.8)	\$ 53.8	\$ 18.3	\$ 50.1
Adoption of new accounting policy for inventories (note 2(a))	—	—	(2.8)	—
Retained earnings, beginning of period, as adjusted	(7.8)	53.8	15.5	50.1
Net loss and comprehensive loss for the period	(26.4)	(7.3)	(49.7)	(3.6)
Retained earnings (deficit), end of period	\$ (34.2)	\$ 46.5	\$ (34.2)	\$ 46.5

See accompanying notes to unaudited interim consolidated financial statements.

# TIMBERWEST FOREST CORP.

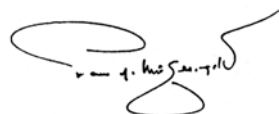
## Consolidated Balance Sheets

(in millions of dollars)

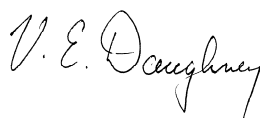
	As at June 30, 2008 <i>Unaudited</i>	As at December 31, 2007
<b>Assets</b>		
Current assets:		
Cash	\$ —	\$ 1.2
Accounts receivable	9.7	4.9
Inventories (note 2(a) and 6)	23.8	32.9
Prepaid expenses and other current assets	5.7	6.1
Future income taxes	2.2	2.1
Discontinued operations	5.4	17.2
	46.8	64.4
Property, plant and equipment, net (note 7)	1,225.0	1,230.0
Other assets (note 8)	1.8	2.0
	\$ 1,273.6	\$ 1,296.4
<b>Liabilities and Unitholders' Equity</b>		
Current liabilities:		
Revolving credit facilities	\$ 50.0	\$ —
Accounts payable and accrued liabilities	25.1	15.2
Distribution payable	21.0	21.0
Discontinued operations	3.6	4.2
	99.7	40.4
Revolving credit facilities	161.9	187.5
Long-term silviculture liability	3.4	3.2
Employee future benefits (note 9)	37.8	37.2
Future income taxes	114.2	119.2
	417.0	387.5
Series A Subordinate Notes owned by unitholders (note 10)	698.2	698.1
	1,115.2	1,085.6
Unitholders' equity:		
Share capital, consisting of common and preferred shares (note 10)	191.0	191.0
Contributed surplus	1.6	1.5
Retained earnings (deficit)	(34.2)	18.3
	158.4	210.8
	\$ 1,273.6	\$ 1,296.4

See accompanying notes to unaudited interim consolidated financial statements.

On behalf of the Board of Directors:



Paul J. McElligott  
Director



V. Edward Daughney  
Director

# TIMBERWEST FOREST CORP.

## Consolidated Statements of Cash Flows

(in millions of dollars)  
Unaudited

	Three months ended June 30		Six months ended June 30	
	2008	2007	2008	2007
<b>Cash provided by (used in):</b>				
<b>Operating activities:</b>				
Net loss from continuing operations	\$ (18.9)	\$ (4.7)	\$ (41.8)	\$ (2.0)
Items not involving cash:				
Depreciation, depletion and amortization	1.4	1.8	2.7	3.7
Gain on sale of property, plant and equipment	(3.3)	(5.3)	(3.8)	(5.4)
Future income tax recovery	(0.5)	(2.3)	(5.2)	(2.6)
Other non-cash items	0.3	(0.2)	0.9	0.4
	(21.0)	(10.7)	(47.2)	(5.9)
Changes in non-cash working capital:				
Accounts receivable	(2.1)	(8.7)	(4.8)	(8.6)
Inventories	3.9	(19.2)	6.3	(31.3)
Prepaid expenses and other working capital	(0.2)	(5.6)	0.4	(6.5)
Accounts payable and accrued liabilities	5.7	5.3	9.9	8.2
	7.3	(28.2)	11.8	(38.2)
	(13.7)	(38.9)	(35.4)	(44.1)
<b>Financing activities:</b>				
Issuance of Stapled Units on exercise of options:				
Series A Subordinate Notes	0.1	0.1	0.1	0.9
Share capital	—	—	—	0.5
	0.1	0.1	0.1	1.4
Demand credit facility	—	1.2	—	1.2
Revolving credit facilities	6.9	24.5	24.4	24.5
	7.0	25.8	24.5	27.1
<b>Investing activities:</b>				
Proceeds from sale of property, plant and equipment	4.6	5.5	7.0	5.7
Additions to property, plant and equipment	(0.3)	(0.8)	(0.8)	(1.3)
Other assets	0.1	0.1	0.2	0.3
	4.4	4.8	6.4	4.7
<b>Cash provided by discontinued operations</b>	<b>2.2</b>	<b>4.4</b>	<b>3.3</b>	<b>3.0</b>
<b>Decrease in cash and cash equivalents</b>	<b>(0.1)</b>	<b>(3.9)</b>	<b>(1.2)</b>	<b>(9.3)</b>
<b>Cash and cash equivalents, beginning of period</b>	<b>0.1</b>	<b>3.9</b>	<b>1.2</b>	<b>9.3</b>
<b>Cash and cash equivalents, end of period</b>	<b>\$ —</b>	<b>\$ —</b>	<b>\$ —</b>	<b>\$ —</b>
<b>Supplemental information:</b>				
Interest on Series A Subordinate Notes paid to unitholders	\$ 21.0	\$ 20.9	\$ 42.0	\$ 41.8
Other interest paid	\$ 2.5	\$ 7.3	\$ 5.1	\$ 7.4
Income taxes paid	\$ —	\$ —	\$ —	\$ —

See accompanying notes to unaudited interim consolidated financial statements.



# TIMBERWEST FOREST CORP.

## Notes to Unaudited Interim Consolidated Financial Statements

For the three and six months ended June 30, 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 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.

As described in note 3, 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 as required by CICA Section 3475, Disposal of Long-lived Assets and Discontinued Operations.

### 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 continue to be recorded at the lower of cost and replacement value according to the new accounting policy.

#### (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 11).

# TIMBERWEST FOREST CORP.

## Notes to Unaudited Interim Consolidated Financial Statements For the three and six months ended June 30, 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.

TimberWest adopted this amendment on 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 compared to the US dollar and high input costs due to low production and rising fuel prices. TimberWest has responded to these conditions by reducing logging production and permanently closing its last sawmill operation. The Company has a working capital deficit of \$52.9 million primarily due to the current portion of revolving credit facilities of \$50.0 million. Despite these challenges, management forecasts that the Company will remain a going concern in the foreseeable future given its abilities to adjust distributions and obtain additional financing if required.

### 3. Discontinued Operations

TimberWest has been engaged in a process to sell the Elk Falls sawmill since October 2005. Despite widespread exposure across Canada and elsewhere, no purchasers came forward with a bid proposal to acquire the sawmill. The sawmill had high operating costs, a history of losses, and required significant capital investment even before the most recent decline in lumber markets and the strengthening of the Canadian dollar.

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 will dispose of substantially all of the assets of the sawmill. 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 June 30		Six months ended June 30	
	2008	2007	2008	2007
Sales	\$ 22.4	\$ 22.0	\$ 35.4	\$ 54.5
Loss before income taxes	\$ (7.5)	\$ (2.6)	\$ (7.9)	\$ (1.6)
Net loss	\$ (7.5)	\$ (2.6)	\$ (7.9)	\$ (1.6)

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 six months ended June 30, 2008 were \$4.4 million and \$13.0 million (2007 - \$8.1 million and \$26.2 million).

# TIMBERWEST FOREST CORP.

## Notes to Unaudited Interim Consolidated Financial Statements For the three and six months ended June 30, 2008 and 2007

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

### 3. Discontinued Operations (continued)

	Three months ended June 30		Six months ended June 30	
	2008	2007	2008	2007
Cash flow from operating activities	\$ 2.1	\$ 4.4	\$ 3.2	\$ 3.0
Cash flow from financing activities	—	—	—	—
Cash flow from investing activities	0.1	—	0.1	—
Cash provided by operations	\$ 2.2	\$ 4.4	\$ 3.3	\$ 3.0

### 4. Income Taxes

	Three months ended June 30		Six months ended June 30	
	2008	2007	2008	2007
Current income tax expense	\$ —	\$ —	\$ —	\$ —
Future income tax recovery	(0.5)	(2.3)	(5.2)	(2.6)
	\$ (0.5)	\$ (2.3)	\$ (5.2)	\$ (2.6)

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 rate change resulted in a future income tax recovery of \$4.3 million for the six months ended June 30, 2008.

### 5. Earnings (loss) per Share

	Three months ended June 30		Six months ended June 30	
	2008	2007	2008	2007
Net loss from continuing operations	\$ (18.9)	\$ (4.7)	\$ (41.8)	\$ (2.0)
Net loss	\$ (26.4)	\$ (7.3)	\$ (49.7)	\$ (3.6)
Basic weighted average number of common shares	77,754,160	77,726,775	77,752,764	77,700,868
Incremental common shares from potential exercise of options	31,421	206,455	34,027	178,116
Diluted weighted average number of common shares	77,785,581	77,933,230	77,786,791	77,878,984
Basic and diluted net loss from continuing operations per common share	\$ (0.24)	\$ (0.06)	\$ (0.54)	\$ (0.03)
Basic and diluted net loss per common share	\$ (0.34)	\$ (0.09)	\$ (0.64)	\$ (0.05)

# TIMBERWEST FOREST CORP.

## Notes to Unaudited Interim Consolidated Financial Statements For the three and six months ended June 30, 2008 and 2007

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

### 6. Inventories

	As at June 30, 2008	As at December 31, 2007
Logs	\$ 23.8	\$ 32.9

For the three months ended June 30, 2008, log inventory has been written up by \$1.5 million. For the six months ended June 30, 2008, log inventories have been written down by \$0.3 million, which has been expensed to cost of sales for the period.

### 7. Property, Plant and Equipment

Property, plant and equipment at June 30, 2008, includes private timberlands with a carrying value of \$1,172.3 million. This amount includes a valuation increase adjustment of \$376.4 million recorded in the year ended December 31, 2000, 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.

During the second quarter of 2008, the Company sold 456 acres (2007 – 40 acres) of land with a net book value of \$1.3 million (2007 - \$0.1 million) for a gain of \$3.3 million (2007 - \$0.1 million). For the six months ended June 30, 2008, the Company sold 490 acres (2007 – 58 acres) of land with a net book value of \$2.8 million (2007 - \$0.3 million) for a gain of \$3.7 million (2007 - \$0.2 million).

### 8. Other Assets

	As at June 30, 2008	As at December 31, 2007
Deferred debt issue costs	\$ 0.4	\$ 0.5
Receivable on sale of property, plant and equipment	0.5	0.5
Other	0.9	1.0
	\$ 1.8	\$ 2.0

# TIMBERWEST FOREST CORP.

## Notes to Unaudited Interim Consolidated Financial Statements For the three and six months ended June 30, 2008 and 2007

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

### 9. Employee Benefits

	As at June 30, 2008	As at December 31, 2007
Pension benefits	\$ 8.9	\$ 8.8
Non-pension post-retirement benefits	28.9	28.4
	<b>\$ 37.8</b>	<b>\$ 37.2</b>

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 retired hourly employees not covered by union pension plans. For the three months ended June 30, 2008, the Company recorded an expense of \$0.5 million for pension benefit costs (2007 – \$0.5 million) and made cash payments of \$0.5 million to fund current service costs (2007 – \$0.4 million). For the six months ended June 30, 2007, the Company recorded an expense of \$1.0 million for pension benefit costs (2007 – \$1.1 million) and made cash payments of \$1.0 million (2007 – \$1.1 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 June 30, 2008, the Company recorded an expense of \$0.9 million for non-pension benefit costs (2007 – \$1.0 million) and made cash payments of \$0.6 million to fund current benefit costs (2007 – \$0.6 million). For the six months ended June 30, 2008, the Company recorded an expense of \$1.7 million for non-pension benefit costs (2007 – \$2.0 million) and made cash payments of \$1.1 million to fund current benefit costs (2007 - \$1.1 million).

### 10. Stapled Units

	Stapled Unit Components			
	Number	Series A Subordinate Notes	Share Capital (consisting of common and preferred shares)	Total
<b>Six months ended June 30, 2007:</b>				
Balance, December 31, 2006	77,635,254	\$ 697.0	\$ 190.4	\$ 887.4
Issuance of Stapled Units on exercise of options	94,546	0.9	0.5	1.4
Balance, June 30, 2007	77,729,800	\$ 697.9	\$ 190.9	\$ 888.8
<b>Six months ended June 30, 2008:</b>				
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
Balance, June 30, 2008	77,765,440	698.2	191.0	889.2

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.

# TIMBERWEST FOREST CORP.

## Notes to Unaudited Interim Consolidated Financial Statements For the three and six months ended June 30, 2008 and 2007

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

### 10. Stapled Units (continued)

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 \$1.077456788 per annum (12%). The Series A Subordinate Notes are unsecured and subordinate to all credit facilities 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.

The Company may elect to pay the interest on the Series A Subordinate Notes held by unitholders in common or preferred shares of the Company, and may elect to pay the principal amount of the Series A Subordinate Notes held by unitholders in common shares of the Company.

### 11. 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 June 30, 2008, no Stapled Unit options were granted. (2007 – 50,000 Stapled Unit options were granted at an average exercise price of \$17.64). For the six months ended June 30, 2008, no Stapled Unit options were granted. (2007 – 339,370 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 with the weighted average assumptions below. As no Stapled Unit options were granted for the six months ended June 30, 2008, no weighted average assumptions are shown for 2008.

	2008	2007
Risk-free interest rate	–	4.1%
Expected life (years)	–	5.0
Expected volatility	–	21.6%
Dividend yield	–	6.5%
Number of options granted	–	339,370
Fair value of each option granted	–	\$1.84

No Stapled Unit options were granted between January 1, 2008 and June 30, 2008. The compensation cost for the 339,370 Stapled Unit options that were granted in the same period in 2007 was \$628,000. The compensation cost of Stapled Unit option awards is amortized against earnings over the three-year vesting period of the underlying options, or for employees eligible to retire, at the grant date rather than over the vesting period. An expense of \$63,000 and \$127,000 has been recognized in net earnings for the three and six months ended June 30, 2008 (2007 – \$127,000 and \$361,000, 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.

# TIMBERWEST FOREST CORP.

## Notes to Unaudited Interim Consolidated Financial Statements For the three and six months ended June 30, 2008 and 2007

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

### 11. Stock-based Compensation Plans (continued)

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 June 30, 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 six months ended June 30, 2008, \$0.6 million has been accrued for awards granted under the plan (2007 - \$0.5 million) and \$0.6 million has been amortized against earnings for this period (2007 - \$0.6 million).

During the three months ended June 30, 2008, a total of 12,577 Stapled Unit options with an average exercise price of \$12.21 were exercised and 8,178 Stapled Unit options with an average exercise price of \$15.88 were cancelled (2007 – 8,084 Stapled Unit options with an average exercise price of \$12.70 were exercised). For the six months ended June 30, 2008, a total of 15,297 Stapled Unit options with an average exercise price of \$12.15 were exercised and 9,678 Stapled Unit options with an average exercise price of \$15.94 were cancelled (2007 – 94,546 Stapled Unit options with an average exercise price of \$13.75 were exercised).

### 12. 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 Company measures its Series A Subordinate Notes owned by unitholders at amortized cost using the effective interest method. The effective interest method establishes the rate which equates the estimated future cash flows with the net carrying amount of the financial liability. The embedded derivative arising from the option to extend the Series A Subordinate Notes for a further 10 year period is measured at fair value.

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.

At June 30, 2008, the Company's Series A Subordinate Notes owned by unitholders had a carrying value of \$698.2 million measured at the amortized cost 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 12% 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 institution and it is insignificant to TimberWest's consolidated financial statements.



# TIMBERWEST FOREST CORP.

## Notes to Unaudited Interim Consolidated Financial Statements For the three and six months ended June 30, 2008 and 2007

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

### 12. Financial Instruments (continued)

#### (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 collectibility of accounts receivable. In certain offshore markets, the Company requires bank letters of credit. The maximum exposure to credit risk as at June 30, 2008 is the carrying value of the Company's accounts receivable. As at June 30, 2008, approximately 93% of 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 June 30, 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, 2008. Under both facilities, 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.

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

For the three months ended June 30, 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 \$0.6 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 (55% of sales for the six 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 June 30, 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.

# TIMBERWEST FOREST CORP.

## Notes to Unaudited Interim Consolidated Financial Statements For the three and six months ended June 30, 2008 and 2007

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

### 12. Financial Instruments (continued)

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

##### (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 June 30, 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>	2008	2009	2010	2011	2012	2013+	Total
Reflected on the consolidated balance sheets:							
Revolving credit facilities	\$ 50.0	\$ -	\$ -	\$ -	\$161.9	\$ -	\$ 211.9
Not reflected on the consolidated balance sheets:							
Outstanding letters of credit	6.3	11.0	-	-	-	-	17.3
	\$ 56.3	\$ 11.0	\$ -	\$ -	\$161.9	\$ -	\$ 229.2

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

The Company has a working capital deficit of \$52.9 million due to the current portion of the revolving credit facilities of \$50.0 million included in the table above. Management is closely monitoring its cash flows to manage liquidity. In addition, management is in discussions with lenders for additional liquidity if required and monitoring its distribution levels.

### 13. 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 credit facilities on the balance sheet. Total capitalization is calculated as 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-to-total capitalization ratio as at June 30, 2008 was 20:80, compared to 17:83 as at December 31, 2007.

### 14. Comparative figures

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

# TIMBERWEST FOREST CORP.

## Supplemental Information

Unaudited

Three months ended  
June 30

Six months ended  
June 30

2008

2007

2008

2007

### Sales Revenue by Product

(in millions of dollars)

#### Log sales

Domestic \$ 26.4 \$ 44.8 \$ 39.4 \$ 82.8

Export – Asia 20.6 19.1 34.1 46.2

Export – US 3.5 16.4 5.2 29.6

Total log sales 50.5 80.3 78.7 158.6

Real estate 4.9 0.3 7.7 0.6

Other 1.6 1.4 2.6 2.6

\$ 57.0 \$ 82.0 \$ 89.0 \$ 161.8

### Sales Volume

Logs (thousand m<sup>3</sup>)

Domestic 387.4 530.7 581.2 987.6

Export – Asia 227.8 163.2 362.3 382.0

Export – US 63.0 198.4 84.4 345.8

678.2 892.3 1,027.9 1,715.4

### Log Sales Mix (thousand m<sup>3</sup>)

Fir 476.8 590.9 705.8 1,198.4

Hembal 131.7 187.0 210.7 313.9

Cedar 39.3 69.3 55.0 112.1

Other 30.4 45.1 56.4 91.0

678.2 892.3 1,027.9 1,715.4

### Production Volume

Logs (thousand m<sup>3</sup>)

Public tenures 87.4 170.7 194.8 287.1

Private timberlands 514.5 931.6 791.4 1,895.0

601.9 1,102.3 986.2 2,182.1

## Discontinued Operations

Unaudited

Three months ended  
June 30

Six months ended  
June 30

2008

2007

2008

2007

### Sales Revenue by Product

(in millions of dollars)

Lumber, wood chips and other \$ 22.4 \$ 22.0 \$ 35.4 \$ 54.5

### Sales Volume

Lumber (million fbm) 31.2 31.4 48.2 72.2

### Production Volume

Lumber (million fbm) 14.9 23.2 43.3 69.8

# TIMBERWEST FOREST CORP.

	Three months ended June 30		Six months ended June 30	
	2008	2007	2008	2007
<b>Earnings (Loss) Before Interest, Taxes, Depreciation and Amortization (EBITDA)*</b>				
<i>(in millions of dollars)</i>				
Net loss from continuing operations	\$ (18.9)	\$ (4.7)	\$ (41.8)	\$ (2.0)
Add (deduct):				
Interest on Series A Subordinate Notes paid to unitholders	21.0	20.9	42.0	41.8
Interest on long-term debt	1.9	0.4	4.4	0.5
Interest on short-term debt	0.6	3.4	0.7	6.8
Income tax recovery	(0.5)	(2.3)	(5.2)	(2.6)
Depreciation, depletion and amortization	1.3	1.7	2.5	3.4
Amortization of deferred financing costs	0.1	0.1	0.2	0.3
Earnings from continuing operations before Interest, Taxes, Depreciation and Amortization	5.5	19.5	2.8	48.2
Loss from discontinued operations before Interest, Taxes, Depreciation and Amortization	(7.5)	(2.0)	(7.9)	(0.4)
Earnings (Loss) before Interest, Taxes, Depreciation and Amortization	(2.0)	17.5	(5.1)	47.8

\* 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.

# TIMBERWEST FOREST CORP.

## About TimberWest

TimberWest Forest Corp. is uniquely positioned as Western Canada's largest private land management company. The Company owns in fee simple approximately 322,000 hectares or 796,000 acres of private land, including 75 kilometres of waterfront that over the previous five calendar years, have provided an annual average timber harvest of 2.565 million m<sup>3</sup> of logs and have an approximate annual growth rate of 8.0 m<sup>3</sup> per hectare per year on the productive land base. These lands are located on Vancouver Island and the majority of the land base supports the growth of Douglas fir, a premium tree species sought after for structural purposes. TimberWest runs fully-contracted harvesting operations. With almost 80% of the Company's annual private land logging now being done in second-growth stands, TimberWest leads the Coastal industry in the growing and harvesting of second-growth timber. TimberWest also owns renewable Crown harvest rights to 0.7 million m<sup>3</sup> of logs per year.

The Company operated a sawmill located near Campbell River, BC until May 9, 2008.

In addition, approximately 54,000 hectares, or 134,000 acres (approximately 17% of the Company's landholdings) of the Company's lands have been identified as having greater value as real estate properties and will progressively be made available for higher uses over the next ten to fifteen years. Five land classifications have been developed for the Company's 39,000 acres of core development lands. An additional 41,000 acres adjacent to our core development lands have yet to be classified for specific development opportunities, and some 54,000 acres of non-core higher and better use lands will be sold "as is" over time with little additional planning or zoning work undertaken. The Company reviews its land base on a periodic basis to update the size of its portfolio of higher use properties.

The Company's independent auditor, KPMG Performance Registrar Inc., periodically certifies that the forest management practices on both the Company's private and public timberlands continue to meet all Sustainable Forestry Initiative (SFI<sup>®</sup>) requirements. SFI requirements specify that forest harvesting is integrated with environmental and conservation goals for soil, wildlife, water quality protection, conservation of biodiversity, protection of special sites and aesthetics in a manner that ensures a sustainable harvest over the long-term.

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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](http://www.timberwest.com)

