TIMBERWEST FOREST CORP.

For immediate release: May 6, 2009

TIMBERWEST ANNOUNCES 2009 FIRST QUARTER RESULTS

Vancouver (BC) - The economic downturn continues to have negative impacts on TimberWest. With its harvest level tracking at less than half of historic average volume levels and lower real estate proceeds in the first quarter of 2009, its distributable cash loss for the first quarter was $6.4 million, or $(0.08) per stapled unit excluding refinancing charges of $8.9 million. Continuing problems with the US housing market, combined with increasing weakness in the company's domestic and Asian markets, resulted in log sales volumes and realizations remaining at historically low levels. Local real estate markets have also slowed with sales activity across Vancouver Island down 53% in the first two months of 2009.

TimberWest's President and CEO, Paul McElligott, noted that "While the US housing market remains severely depressed, the positive news is that housing affordability has greatly improved, 30 year mortgage rates are at record lows, and the inventory of unsold homes is beginning to decline, all of which bode well for the eventual recovery". He also noted that so far this year currency is working in the Company's favour, helping to offset lower prices in the company's export markets.

The Company noted that costs are basically in line with prior year and that TimberWest is busy implementing its new sub-divided contractor model on the BC coast, moving harvesting operations to smaller, mid-sized logging contractors. McElligott noted that cost savings of $10 million per year would materialize from sub-division once it is fully implemented and harvest volumes are back to normal levels.

The Company expects the remainder of the year to be challenging and, in this environment, it plans to take concerted action to minimize costs, reduce production levels, and preserve value. The Company remains very bullish about the mid and long term future of both its real estate and timberland businesses. McElligott added "With the superb asset base we own in a very desirable part of the world, the looming log shortage coming with the mountain pine beetle devastation in the interior of BC, uncertain Russian log supply, the growing demand for wood in Asia, and the eventual housing recovery in the US, the Company's prospects are very strong following this downturn."

QUARTERLY CONFERENCE CALL

TimberWest will hold a conference call at 9:00am PT (12:00pm ET) on Thursday, May 7, 2009, to discuss results of the first quarter. To access the conference call, listeners should dial 1-800-735-5968. For those unable to participate in the live call, a recording of the call will be available until May 21, 2009, and can be accessed at 1-800-558-5253 using code 21420226. 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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TO OUR UNITHOLDERS

The economic downturn continued to have significant negative impacts on TimberWest in the first quarter of 2009.

Specifically, the continuing problems with the U.S. housing market, combined with increasing weakness in our domestic and Asian markets resulted in log sales realizations and sales volumes remaining at historically low levels. Local real estate markets have also slowed with sales activity down 53% in the first two months of 2009.

Faced with record low margins, TimberWest has continued with its harvest deferral strategy, first implemented in Q4, 2007, to preserve unitholder value. With the harvest tracking at less than half of historic average volume levels and lower real estate proceeds, distributable cash loss for the quarter ended March 31, 2009 was $15.3 million, or $(0.20) per stapled unit, compared to a distributable cash loss of $3.9 million, or $(0.05) per stapled unit, for the first quarter of 2008. Excluding the refinancing charges of $8.9 million, distributable cash loss for the quarter was $6.4 million or $(0.08) per stapled unit.

EBITDA for purposes of the bank covenant calculation was negative $2.0 million, however, there was no minimum EBITDA test required to be met under the credit agreement for the first quarter of 2009. The minimum bank EBITDA for the period January 1, 2009 to June 30, 2009 is negative $16.0 million and the minimum bank EBITDA for the period January 1, 2009 to December 31, 2009 is negative $16.0 million. The key difference between EBITDA for financial reporting purposes and for the covenant calculation is in the treatment of real estate sales. The covenant calculation includes the proceeds from real estate sales rather than the margin.

Timberland Operational Results

Some 57% of the company's log sales volume in Q1, 2009 were to the coastal BC market, where sales realizations were 15% lower than in Q1, 2008. The coastal BC sawmilling industry continues to struggle in today's market environment. Sawmill production is estimated by TimberWest to be 36% lower than in Q1, 2008, with mills operating at about 55% of capacity in Q1 2009. Logging production on the coast is estimated to be down 44% from Q1, 2008.

Log export volumes were 4% higher in Q1, 2009 than Q1, 2008 with shortfalls into Japan (some 11,000 m^3) made up by increases into China. Housing starts in Japan declined 25% in February and 19% in January, 2009 relative to the same periods last year and, as a result, demand for logs in Japan is slowing. Realizations in Japan were 14% higher in Q1, 2009 relative to the same period last year due to a favourable foreign exchange variance.

The US housing market remains severely depressed, with the number of home foreclosures rising and a significant supply of new and existing homes still on the market. US west coast sawmillers are curtailing production in light of low housing starts and non-compensatory lumber prices in the country. Log export volumes into that market by TimberWest were only 28,000 m^3 in Q1, 2009, less than what was shipped to Korea and China. Realizations were 6% higher on a lower value end use sort mix due to a weaker Canadian dollar. The positive news is that housing affordability in the US has greatly improved and 30 year mortgage rates are at record lows, both of which bode well for a recovery.

In total, log sales volumes were 382,000 m^3 this quarter and log sales realizations were $77 per m^3 compared to 350,000 m^3 for the same quarter last year when sales realizations were $81 per m^3.

Logging cost of sales on a per m^3 basis was comparable to the same period in 2008. While production costs were lower by $4 per m^3, this favourable variance was offset by higher log purchase costs and the absorption of fixed costs in the period due to unusually low harvest volumes.

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On a positive note, we made significant progress this quarter with the implementation of our sub-divided contractor model. Numerous bids have been received from contractors on the Coast, the Interior of BC and as far afield as Alberta. We are in the process of awarding contracts in our private land operations and I am pleased to confirm that the projected savings from moving to a sub-divided contractor model are materializing. We will convert our South Island operations to the sub-divided model in 2009 and convert North Island operations at the start of 2010. Once fully implemented and harvest volumes are back to normal levels, we will realize cost savings in excess of $10 million per year from what they would otherwise have been.

The first quarter was also positive from a safety perspective. The Timberlands MIR was 0.64, based on two reportable incidents. This compares to a MIR of 0.93 for 2008.

Real Estate Operational Results

Real estate net proceeds for the quarter were low at $220,000, or $4,500 per acre compared to $2.4 million, or $73,000 per acre for the first quarter of 2008. The sale in 2008 was for an industrial site. While interest in our land sales program has been good, economic conditions are obviously affecting this part of our business as well.

We have closed on two sales totaling $3.85 million so far in the second quarter, representing $3,162 per acre. This is a significant achievement in these markets and indicates that there are buyers at good values for our lands.

On the entitlement side of the real estate business, discussion and activity continued in a number of areas.

We continue to be optimistic about the mid and long term prospects of our real estate business. It will make a meaningful contribution to future cash flows as we unlock the value of these properties.

We successfully launched **Couverdon** as the new name of our real estate business unit and appointed Bev Park as President and Chief Operating Officer during the quarter. I expect her strong leadership will help us take best advantage of what our outstanding landholdings have to offer on Vancouver Island.

Other First Quarter 2009 Updates

During the quarter, TimberWest completed the refinancing initiative, closing the $150 million convertible debenture offering, amending the credit facility and appointing two new Board members, David Emerson and Maureen Howe, nominees of the BC Investment Management Corporation (bcIMC).

I would also like to recognize Bill Brown who is retiring from the TimberWest Board after 16 years of Board service. Bill is the only director who has served since the original formation of TimberWest Forest Limited, the majority owned subsidiary of Fletcher Challenge Canada Limited. Bill has been an invaluable member of our Board and has ably served the company as its Audit Committee Chair. We wish Bill all the best and thank him for tremendous contribution to our company.

TimberWest is actively exploring whether we can list the convertible debentures issued in February on the TSX and conditional approval has been granted by the TSX.

Outlook

It is expected that the remainder of the year will continue to be very challenging with economic conditions remaining much the same. The Company continues to take concerted action to minimize costs in this environment, reduce production levels, and preserve value. While this has had an impact on our near term earnings, the long term benefits will be that our trees continue to grow in size and value and our real estate initiatives will significantly enhance the value of a meaningful portion of our land base.

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We remain very bullish about the mid- and long-term prospects for both our timberlands and real estate businesses. With the superb asset base we own in a very desirable part of the world, the looming log shortage coming with the mountain pine beetle devastation in the interior of British Columbia, uncertain Russian log supply, the growing demand for wood in Asia, and the eventual housing recovery in the US, the Company's prospects are very strong following this downturn.

I want to thank unitholders once again for your support during these difficult times and look forward to sharing much better results once we get beyond this downturn.

On behalf of the Board of Directors,

Paul McElligott
President and Chief Executive Officer
Vancouver, British Columbia
May 6, 2009

TIMBERWEST FOREST CORP.

MANAGEMENT'S DISCUSSION & ANALYSIS

For the three months ended March 31, 2009 and 2008

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 first quarter of 2009 ("first quarter" or "Q1"). This discussion and analysis provides an overview of significant developments that have affected TimberWest's performance during the first quarter of 2009 relative to the first quarter of 2008, and that have affected the Company's financial position as at March 31, 2009, relative to December 31, 2008.

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 2008 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 May 6, 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.

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.

TIMBERWEST FOREST CORP.

1. Financial Highlights

Selected financial information

(in millions of dollars except where otherwise noted)	**2009 Q1**	2008 Q1
Sales	**$ 30.4**	$ 32.0
Operating loss from continuing operations	**(3.1)**	(4.0)
Operating loss from continuing operations - % of sales	**(10.2)%**	(12.5)%
Net loss from continuing operations	**(7.6)**	(22.9)
EBITDA from continuing operations[1]	**(2.3)**	(2.7)
EBITDA [1]	**(2.4)**	(3.1)
EBITDA for covenant purposes[1]	**(2.0)**	(1.2)
Distributable cash from continuing operations[1]	**(15.2)**	(3.5)
Distributable cash[1]	**(15.3)**	(3.9)
Per Stapled Units – basic and diluted (in dollars)		
EBITDA from continuing operations[1]	**(0.03)**	(0.03)
EBITDA[1]	**(0.03)**	(0.04)
Distributable cash from continuing operations[1]	**(0.20)**	(0.04)
Distributable cash[1]	**(0.20)**	(0.05)
Timberland sales	**30.2**	29.2
Real estate sales	**0.2**	2.8
Stapled Units (thousands)		
At period-end	77,765	77,753
Basic weighted average	77,765	77,751
Diluted weighted average	77,766	77,789

1 Distributable cash and earnings before interest, tax, depreciation and amortization ("EBITDA") do 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 these measures will enhance an investor's understanding of the Company's operating performance. EBITDA for covenant purposes differs from financial reporting EBITDA in its treatment of real estate sales and other items. For additional information the credit facility agreement can be found on the System for Electronic Document Analysis and Retrieval (SEDAR) at http://www.sedar.com.

Sales decreased $1.6 million or 5% in Q1, 2009 compared to Q1, 2008 primarily due to a decrease in log sales realizations partially offset by increased log sales volumes and a weaker Canadian dollar.

Reconciliation of net loss from continuing operations to EBITDA

(in millions of dollars)	Three months ended March 31 2009	2008
Net loss from continuing operations	**$ (7.6)**	$ (22.9)
Add (deduct):		
Interest on Series A Subordinate Notes owned by unitholders	**3.4**	21.0
Interest on convertible debentures	**1.7**	-
Interest on long-term debt	**2.1**	2.5
Interest on short-term debt	**0.5**	0.1
Income tax recovery	**(8.8)**	(4.7)
Depreciation, depletion and amortization	**0.9**	1.2
Amortization of deferred financing costs	**0.5**	0.1
Change in fair value of financial instruments held for trading	**(2.0)**	-
Financing transaction costs	**5.4**	-
Accretion on Series A Subordinate Notes	**1.6**	-
EBITDA from continuing operations[1]	**(2.3)**	(2.7)
EBITDA from discontinued operations[1,2]	**(0.1)**	(0.4)
EBITDA[1]	**$ (2.4)**	$ (3.1)

1 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.

2 The Company permanently closed its Elk Falls sawmill operations on May 9, 2008.

2. Distributable Cash

Reconciliation of net loss from continuing operations to distributable cash

(in millions of dollars)	2009 Q1	2008 Q1
Net loss from continuing operations	**$ (7.6)**	$ (22.9)
Interest on Series A Subordinate Notes owned by unitholders	**3.4**	21.0
Loss from continuing operations available for distribution	**(4.2)**	(1.9)
Accretion on Series A Subordinate Notes	**1.6**	-
Change in fair value of financial instruments held for trading	**(2.0)**	-
Income tax recovery	**(8.8)**	(4.7)
Loss from continuing operations available for distribution before accretion, changes in fair value of financial instruments held for trading, and provision for future income taxes	**(13.4)**	(6.6)
Add (deduct):		
Depreciation, depletion and amortization	**1.4**	1.3
Proceeds from sale of property, plant and equipment	**0.2**	2.4
Loss (gain) on sale of property, plant and equipment	**0.2**	(0.5)
Additions to property, plant and equipment	**(0.3)**	(0.5)
Financing transaction costs	**(3.5)**	-
Other non-cash items	**0.2**	0.4
	(1.8)	3.1
Distributable cash from continuing operations	**(15.2)**	(3.5)
Distributable cash from discontinued operations[1]	**(0.1)**	(0.4)
Distributable cash	**$ (15.3)**	$ (3.9)

1 The Company permanently closed its Elk Falls sawmill operations on May 9, 2008.

Calculation of distributable cash per Stapled Unit

Per Stapled Units – basic and diluted (in dollars)	2009 Q1	2008 Q1
Loss from continuing operations available for distribution before accretion, changes in fair value of financial instruments held for trading, and provision for future income taxes	**$ (0.17)**	$ (0.08)
Distributable cash from continuing operations	**(0.20)**	(0.04)
Distributable cash from discontinued operations[1]	**-**	(0.01)
Distributable cash	**(0.20)**	(0.05)
Cash distributions paid	**$ -**	$ 0.27

1 The Company permanently closed its Elk Falls sawmill operations on May 9, 2008.

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Reconciliation of operating cash flow from operations to distributable cash

(in millions of dollars)	2009 Q1	2008 Q1
Cash used in continuing operations	**$ (20.8)**	$ (20.9)
Add (deduct):		
Change in non-cash working capital	**9.3**	(5.3)
Interest on Series A Subordinate Notes owned by unit holders	**3.4**	21.0
Proceeds from sale of property, plant and equipment	**0.2**	2.4
Additions to property, plant and equipment	**(0.3)**	(0.5)
Financing transaction costs	**(3.5)**	-
Change in deferred distribution payable	**(3.4)**	-
Other non-cash items	**(0.1)**	(0.2)
	5.6	17.4
Distributable cash from continuing operations	**(15.2)**	(3.5)
Distributable cash from discontinued operations[1]	**(0.1)**	(0.4)
Distributable cash	**$ (15.3)**	$ (3.9)

1 The Company permanently closed its Elk Falls sawmill operations on May 9, 2008.

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 costs 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 Canadian 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 Canadian 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:

	2009	2008	2007	2006	2005	2004
(in millions of dollars)						
First quarter	**$ (15.3)**	$ (3.9)	$ 26.9	$ 31.5	$ 23.9	$ 27.7
Second quarter		(3.2)	13.6	35.5	15.4	43.5
Third quarter		(6.3)	(5.6)	9.3	(1.7)	35.9
Fourth quarter		(11.4)	55.4	27.5	29.7	18.1
	$ (15.3)	$ (24.8)	$ 90.3	$ 103.8	$ 67.3	$ 125.2
Per Stapled Unit[1] (in dollars)						
First quarter	**$ (0.20)**	$ (0.05)	$ 0.35	$ 0.41	$ 0.31	$ 0.36
Second quarter		(0.04)	0.17	0.46	0.20	0.57
Third quarter		(0.08)	(0.07)	0.12	(0.02)	0.47
Fourth quarter		(0.15)	0.71	0.35	0.38	0.24
	$ (0.20)	$ (0.32)	$ 1.16	$ 1.34	$ 0.87	$ 1.64

1 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.

3. Highlights and Significant Transactions

Financing and liquidity

On February 11, 2009, the Company completed a refinancing package by raising $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.

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 outstanding Stapled Units. The convertible debentures pay interest quarterly at 9%.

The net proceeds of the rights offering and private placement permanently repaid $75 million of indebtedness under the Company's existing bank credit facilities, with the remainder reducing indebtedness under the its 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,
- 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 2009 costs related to this refinancing were $8.9 million (2008 - $1.1 million). In the first quarter of 2009, $5.4 million was expensed against income as it relates to the convertible debentures, which have been designated as held for trading and $3.5 million was deferred and capitalized on the balance sheet as these costs relate to debt refinancing held at amortized cost. All $8.9 million was deducted from distributable cash.

Cash distribution

As announced in November, 2008, the January 15, 2009 distribution payment was deferred for up to 27 months pursuant to the terms of the note indenture and all 2009 cash distribution payments are deferred for 18 months.

4. Operating Highlights

Timberlands

(in millions of dollars except where otherwise noted)	2009 Q1	2008 Q1
Log sales		
Domestic	**$ 12.6**	$ 13.0
Export – Asia	**14.4**	13.5
Export - USA	**2.3**	1.7
Total log sales	**$ 29.3**	$ 28.2
Log sales realizations ($/m^3)		
Domestic	**$ 57**	$ 67
Export – Asia	**107**	100
Export - USA	**83**	79
Total log sale realizations	**$ 77**	$ 81
Log sales volume (thousand m^3)		
Domestic	**219.9**	193.8
Export – Asia	**134.6**	134.5
Export - USA	**27.8**	21.4
Total log sales volume	**382.3**	349.7
Log sales mix (thousand m^3)		
Fir	**248.2**	228.9
Hembal	**75.4**	79.1
Cedar	**26.7**	15.7
Other	**32.0**	26.0
Total log sales mix	**382.3**	349.7
Log production volume (thousand m^3)		
Public tenures	**13.5**	107.4
Private timberlands	**298.2**	276.9
Total production volume	**311.7**	384.3
Log production costs ($/m^3)	**$ 68**	$ 72
Timberland cost of sales ($/m^3)	**73**	73
Timberland operating margin (% of log sales)	**3%**	0%

Log sales revenues for the three months ended March 31, 2009 were up 4% from the same quarter last year buoyed by a 9% increase in the sales volumes offset by a $4 decrease in average log sales realizations.

Logging production costs were lower in Q1, 2009 compared to Q1, 2008 as a result of lower road building and indirect costs. However, offsetting the decrease in production costs were higher log purchase costs and higher fixed costs absorbed during Q1, 2009 resulting in logging cost of sales comparable to the same period in 2008.

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Real estate

(in millions of dollars except where otherwise noted)	**2009 Q1**	2008 Q1
Sales	**$ 0.2**	$ 2.8
Net proceeds	**0.2**	2.4
Net proceeds per acre ($/acre)	**4,452**	72,547

The Company has established a real estate division which sells non-core landholdings, pursues entitlements and markets properties. The real estate division was formally branded during Q1, 2009 when the Company named the division "Couverdon."

During Q1, 2009 the real estate division sold one property for net proceeds of $0.2 million or $4,452 per acre compared to Q1, 2008 when the division sold one industrial property in Campbell River, B.C. for net proceeds of $2.4 million or $72,547 per acre.

Discontinued Operations

(in millions of dollars except where otherwise noted)	**2009 Q1**	2008 Q1
Sales	**$ -**	$ 13.0
Operating loss	**(0.1)**	(0.4)
Sales revenue by product		
Lumber	**-**	9.8
Wood chips and residuals	**-**	2.9
Other	**-**	0.3
Total sales revenue by product	**-**	13.0
Sales realizations by product		
Lumber ($/mfbm)	**-**	579.0
Woodchips ($/m^3)	**-**	42.0
Sales volume by product		
Lumber (mfbm)	**-**	17.0
Woodchips (thousand m^3)	**-**	66.0
Lumber production volume (mfbm)	**-**	28.4

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

5. Financial Condition

The following table highlights the significant changes between the consolidated balance sheets as at March 31, 2009 and December 31, 2008:

(in millions of dollars)	**March 31, 2009**	December 31, 2008	**Increase / (decrease)**	
Cash and cash equivalents	**$ 0.5**	$ 30.8	**$ (30.3)**	The decrease in cash is primarily the result of paying down the revolving credit facility. Refer to section 6 "Liquidity and Capital Resources" for greater detail.
Current assets, excluding cash and cash equivalents	**42.4**	40.3	**2.1**	The increase is primarily due to an increase in inventory and accounts receivable.
Property, plant and equipment	**1,222.3**	1,222.0	**0.3**	The increase is due to a reclassification of real estate development costs incurred in prior periods from prepaids and other assets of $1.3 million and offset by depreciation recorded in the period.
Other assets	**9.6**	7.1	**2.5**	The increase in other assets is due to the capitalization of financing costs associated with the restructuring of the Company's credit facilities and offset by the change in fair value of the financial instruments.
Current liabilities	**19.1**	133.7	**(114.6)**	The decrease is due to the restructuring of the Company's credit facilities and a decline in the Company's accounts payable and accrued liabilities. At December 31, 2008, $108.3 million of the Company's term credit facility was classified as current. Under the amended credit agreement, the term credit facility was repaid and replaced with an amended $250 million revolving credit facility classified as long-term.
Revolving credit facilities	**144.0**	189.8	**(45.8)**	The decrease is due to funds received from the convertible debenture issuance enabling the Company to pay down its credit facility.
Convertible debentures	**148.0**	-	**148.0**	The increase is due to the issuance of convertible debentures with a face value of $150.0 million during the period which have a fair value of $148.0 million at March 31, 2009.
Other long-term liabilities	**286.0**	292.6	**(6.6)**	The decrease is due to a lower future income tax liability as a result of provincial tax rate reductions and partially offset by the deferral of the Q1 2009 2% distribution payable on the Series A Subordinate Notes.
Series A Subordinate Notes owned by unitholders	**241.6**	240.4	**1.2**	Increase due to the recognition of accretion and the measurement of embedded derivatives at fair value.
Unitholders' Equity	**$ 436.1**	$ 443.7	**$ (7.6)**	Decrease due to the net loss for the period.

6. Liquidity and Capital Resources

Selected financial information

(in millions of dollars except where otherwise noted)	**2009 Q1**	2008 Q1
Cash provided by (used in):		
Operating activities from continuing operations:		
Cash used in operations before changes in non-cash working capital	**$ (11.5)**	$ (26.2)
Changes in non-cash working capital	**(9.3)**	5.3
	(20.8)	(20.9)
Financing activities:		
Credit facilities	**(154.1)**	17.5
Convertible debentures	**150.0**	-
Financing transaction costs	**(3.5)**	-
	(7.6)	17.5
Investing activities:		
Proceeds from sale of property, plant and equipment	**0.2**	2.4
Additions to property, plant and equipment	**(0.3)**	(0.5)
Other assets	**(1.2)**	0.1
	(1.3)	2.0
Cash provided by (used in) discontinued operations	**(0.6)**	0.3
Increase (decrease) in cash and cash equivalents	**$ (30.3)**	$ (1.1)
Consolidated debt-to-total capitalization ratio[1]	**15:85**	19:81

1 The consolidated debt-to-total capitalization ratio does not have a standardized meaning prescribed by GAAP and may not be comparable to similar measures presented by other companies. Debt includes the senior debt held by a syndicate of banks. Management believes that the presentation of these measures will enhance an investor's understanding of the Company's operating performance.

The Company's primary cash requirements during the industry downturn are to fund operations, capital expenditures and interest payments on the Company's credit facility and convertible debentures. The Company took steps to improve its competitiveness by permanently closing its last remaining sawmill in May 2008, decreasing the number of employees from 385 at the end of 2007 to 88 at the end of 2008, restructuring its contractor arrangements and changing to a variable interest rate on the Series A Subordinate Notes. These changes will help conserve liquidity during the downturn.

During Q1, 2009 the Company issued convertible debentures of $150.0 million and amended its revolving credit facility.

The Company's consolidated debt-to-total capitalization ratio as at March 31, 2009 was 15:85 compared to 30:70 at December 31, 2008. The funds received from the convertible debenture issuance were utilized to pay down the outstanding credit facility. The Company also had cash on hand of $30.8 million at December 31, 2008.

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. While the Company expects to remain in compliance with all of its bank covenants in 2009, if business conditions do not improve in 2010 or if the Company is unable to implement certain business strategies to improve profitability, the Company may breach its EBITDA bank covenant in 2010 as currently constructed. The Company is monitoring and will take proactive steps to remedy the situation if necessary.

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. In the short term, any significant strengthening of the Canadian dollar, or further decline in

U.S. housing and Vancouver Island real estate markets which affects demand or other unexpected adverse developments could adversely impact the Company's liquidity.

Financing activities

Cash used in financing activities in Q1, 2009 was $7.6 million, compared to cash provided of $17.5 million in Q1, 2008. The decrease of $25.1 million is primarily due to the issuance of the $150.0 million convertible debentures in Q1, 2009 of which $75.0 million was used to pay down the credit facility and to fund company operations. In Q1, 2009 transaction costs associated with the refinancing were $8.9 million; $5.4 million was expensed against income as it relates to the convertible debentures, which have been designated as held for trading and $3.5 million was deferred and capitalized on the balance sheet as these costs relate to debt refinancing held at amortized cost. There were no Stapled Units issued in Q1, 2009 compared to the issuance of 2,720 Stapled Units for net proceeds of $35,000 during Q1, 2008.

As at May 6, 2009, the Company had 2,690,574 granted and outstanding Stapled Unit option awards and 77,765,440 issued and outstanding Stapled Units.

Investing activities

Cash used in investing activities in Q1, 2009 was $1.3 million, compared to cash provided of $2.0 million in Q1, 2008. The decrease of $3.3 million was due to reduced proceeds from the sale of property, plant and equipment in Q1, 2009 compared to Q1, 2008.

Capital resources

The Company's capital resources at March 31, 2009 include amounts available under the revolving credit facility and the convertible debentures. These sources of borrowing, coupled with cash from operations, are expected to be sufficient to support the Company's working capital requirements and to finance planned capital expenditures during the year. Credit ratings for the Company have been confirmed by Dominion Bond Rating service at BBB as at December 31, 2008.

Available capital resources and total liquidity at period-end is summarized in the following table:

(in millions of dollars)	**2009 Q1**	2008 Q1
Borrowing base		
Revolving credit facility (due February 11, 2012)	**$ 250.0**	$ -
Convertible debentures (due February 11, 2014)	**150.0**	-
Tranche A credit facility	**-**	216.7
Tranche B credit facility	**-**	108.3
Demand bank facilities	**-**	9.3
Total borrowing base	**400.0**	334.3
Letters of credit	**16.6**	17.1
Amount drawn, net	**294.0**	205.0
Available to be drawn	**89.4**	112.2
Cash on hand	**0.5**	0.1
Total liquidity	**$ 89.9**	$ 112.3

As of March 31, 2009, the Company had $89.9 million of available liquidity, comprised of $0.5 million of cash on hand and $89.4 million available to be drawn on its $250.0 million revolving credit facility. Compared to March 31, 2008 the Company's total liquidity decreased by $22.4 million, primarily due to increased borrowings by the Company in order to finance operations during the current market downturn.

TIMBERWEST FOREST CORP.

Debt

At March 31, 2009, the total debt outstanding was $292.0 million. The following table outlines the changes in the Company's long-term debt for the quarter ended March 31, 2009:

Issue (in millions of dollars)	December 31, 2008	Net increase (decrease)	**March 31, 2009**
Secured revolving credit facility of up to $250.0 million due February 11, 2012 with interest based on Canadian or U.S. Prime rates + 5%, or Canadian BA rates + 6%	$ -	$ 144.0	**$ 144.0**
Unsecured long-term revolving facility (Tranche A) of up to $216.7 million due September 24, 2012 with interest based on Canadian Prime/BA or U.S. LIBOR rates + 0.9%	189.8	(189.8)	**-**
Unsecured term facility (Tranche B) of up to $108.3 million due September 24, 2009 with interest based on Prime rates	108.3	(108.3)	**-**
Convertible debentures with a face value of $150.0 million due February 11, 2014	-	148.0	**148.0**
Total long-term debt	$ 298.1	$ (6.1)	**$ 292.0**
Less current portion	(108.3)	108.3	**-**
	$ 189.8	$ 102.2	**$ 292.0**

Refer to the Company's Interim Consolidated Financial Statements for the three months ended March 31, 2009, Note 11 for details related to covenant compliance.

7. Impact of accounting pronouncements affecting future periods

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 throughout 2009 and 2010, and with adoption of IFRS on January 1, 2011.

8. Disclosure controls and internal control over financial reporting

During the quarter ended March 31, 2009, there was no change in the Company's internal control over financial reporting that has materially affected, or is reasonably likely to materially affect the Company's internal control over financial reporting.

TIMBERWEST FOREST CORP.

CONSOLIDATED STATEMENTS OF OPERATIONS AND COMPREHENSIVE INCOME (LOSS)

Unaudited (in millions of dollars, except per share amounts)	Three months ended March 31 **2009**	 2008
Sales	**$ 30.4**	$ 32.0
Operating costs and expenses:		
Cost of sales	**29.7**	31.8
Selling, administrative and other	**2.9**	3.0
Depreciation, depletion and amortization	**0.9**	1.2
	33.5	36.0
Operating loss from continuing operations	**(3.1)**	(4.0)
Interest expense:		
Series A Subordinate Notes owned by unitholders	**5.0**	21.0
Convertible debentures	**1.7**	-
Long-term debt	**2.1**	2.5
Short-term debt	**0.5**	0.1
	9.3	23.6
Financing transaction costs	**5.4**	-
Amortization of deferred financing costs	**0.5**	0.1
Change in fair value of financial instruments held for trading	**(2.0)**	-
Other expense (income)	**0.1**	(0.1)
	13.3	23.6
Loss before income taxes from continuing operations	**(16.4)**	(27.6)
Income tax recovery (note 6)	**(8.8)**	(4.7)
Net loss and comprehensive loss from continuing operations	**(7.6)**	(22.9)
Net loss and comprehensive loss from discontinued operations (note 5)	**(0.1)**	(0.4)
Net loss and comprehensive loss	**$ (7.7)**	$ (23.3)
Basic and diluted loss from continuing operations per share (note 7)	**(0.10)**	(0.29)
Basic and diluted loss from discontinued operations per share (note 7)	**-**	(0.01)
Basic and diluted loss per share (note 7)	**(0.10)**	(0.30)

CONSOLIDATED STATEMENTS OF RETAINED EARNINGS (DEFICIT)

Unaudited (in millions of dollars)	Three months ended March 31 **2009**	 2008
Retained earnings, beginning of period	**$ 250.8**	$ 15.5
Net loss and comprehensive loss for the period	**(7.7)**	(23.3)
Retained earnings (deficit), end of period	**$ 243.1**	$ (7.8)

See accompanying notes to the unaudited interim consolidated financial statements.

TIMBERWEST FOREST CORP.

CONSOLIDATED BALANCE SHEETS

(in millions of dollars)	**March 31, 2009** Unaudited	December 31, 2008
Assets		
Current assets:		
Cash	**$ 0.5**	$ 30.8
Accounts receivable	**6.3**	4.1
Inventories (note 8)	**31.2**	29.1
Prepaid expenses and other current assets	**3.0**	3.7
Future income taxes	**1.9**	3.3
Discontinued operations	**-**	0.1
	42.9	71.1
Property, plant and equipment (note 9)	**1,222.3**	1,222.0
Other assets (note 10)	**9.6**	7.1
	$ 1,274.8	$ 1,300.2
Liabilities and Unitholders' Equity		
Current liabilities:		
Term credit facilities (note 11)	**$ -**	$ 108.3
Accounts payable and accrued liabilities	**18.3**	23.9
Discontinued operations	**0.8**	1.5
	19.1	133.7
Revolving credit facilities (note 11)	**144.0**	189.8
Convertible debentures (note 12)	**148.0**	-
Long-term silviculture liability	**3.2**	3.2
Employee future benefits (note 13)	**36.7**	36.7
Deferred distribution payable (note 14)	**21.3**	17.8
Stapled Unit option plan (note 16)	**0.1**	-
Future income taxes	**224.7**	234.9
	597.1	616.1
Series A Subordinate Notes owned by unitholders (note 15)	**241.6**	240.4
	838.7	856.5
Unitholders' equity		
Share capital, consisting of common and preferred shares (note 15)	**191.0**	191.0
Contributed surplus	**2.0**	1.9
Retained earnings	**243.1**	250.8
	436.1	443.7
	$ 1,274.8	$ 1,300.2

See accompanying notes to the unaudited interim consolidated financial statements.

On behalf of the Board of Directors:

Paul J. McElligot
Director

V. Edward Daughney
Director

TIMBERWEST FOREST CORP.

CONSOLIDATED STATEMENTS OF CASH FLOWS

Unaudited (in millions of dollars)	Three months ended March 31 2009		2008	
Cash provided by (used in):				
Operating activities:				
Net loss from continuing operations	**$**	**(7.6)**	$	(22.9)
Items not involving cash:				
Depreciation, depletion and amortization		**1.4**		1.3
Accretion on Series A Subordinate Notes		**1.6**		-
Loss (gain) on sale of property, plant and equipment		**0.2**		(0.5)
Future income tax recovery		**(8.8)**		(4.7)
Change in deferred distribution payable		**3.4**		-
Change in fair value of financial instruments held for trading		**(2.0)**		-
Other non-cash items		**0.3**		0.6
		(11.5)		(26.2)
Changes in non-cash working capital:				
Accounts receivable		**(2.2)**		(2.7)
Inventories		**(2.1)**		3.2
Prepaid expenses and other working capital		**0.7**		0.6
Accounts payable and accrued liabilities		**(5.7)**		4.2
		(9.3)		5.3
		(20.8)		(20.9)
Financing activities:				
Convertible debentures		**150.0**		-
Revolving credit facilities		**(45.8)**		17.5
Term credit facilities		**(108.3)**		-
Financing transaction costs		**(3.5)**		-
		(7.6)		17.5
Investing activities:				
Proceeds from sale of property, plant and equipment		**0.2**		2.4
Additions to property, plant and equipment		**(0.3)**		(0.5)
Other assets		**(1.2)**		0.1
		(1.3)		2.0
Cash provided by (used in) continuing operations		**(29.7)**		(1.4)
Cash provided by (used in) discontinued operations (note 5)		**(0.6)**		0.3
Increase (decrease) in cash and cash equivalents		**(30.3)**		(1.1)
Cash and cash equivalents, beginning of period		**30.8**		1.2
Cash and cash equivalents, end of period	**$**	**0.5**	$	0.1
Supplemental information:				
Interest on Series A Subordinate Notes paid to unitholders	**$**	**-**	$	21.0
Other interest paid	**$**	**4.1**	$	2.6
Financing costs paid	**$**	**8.9**	$	-

See accompanying notes to the unaudited interim consolidated financial statements.

TIMBERWEST FOREST CORP.

CONSOLIDATED BUSINESS SEGMENTS

Unaudited	Three months ended March 31, 2009			
(in millions of dollars)	Timberlands	Real Estate	Other	Total
Sales	**$ 30.2**	**$ 0.2**	**$ -**	**$ 30.4**
Operating earnings (loss)	**0.8**	**(0.9)**	**(3.0)**	**(3.1)**
Total assets	**988.4**	**270.2**	**16.2**	**1,274.8**
Additions to property, plant and equipment	**0.1**	**0.2**	**-**	**0.3**

In 2009, the Company has commenced reporting its operating results on a segmented basis in order to disclose the results of its two significant operating segments, timberlands and real estate. Sales and operating earnings reflect the income and expenses of each segment. Private land of approximately 134,000 acres identified as having a higher and better use is reported as real estate assets at its carrying value. All other assets have been reported under the segment in which they are managed. The ‘other’ segment reflects those costs and assets that are allocated for general corporate purposes.

NOTES TO THE UNAUDITED INTERIM CONSOLIDATED FINANCIAL STATEMENTS

For the three months ended March 31, 2009 and 2008

(Unaudited and 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, 2008, except for the adoption of new accounting policies as described in note 3.

2. Going concern

The current economic environment for the global forest products industry is challenging with substantially lower than average prices 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 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 14), and the refinancing package (note 11) 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. 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. While the Company expects to remain in compliance with all of its bank covenants in 2009, if business conditions do not improve in 2010 or if the Company is unable to implement certain business strategies to improve profitability, the Company may breach its EBITDA bank covenant in 2010 as currently constructed. The Company is monitoring and will take proactive steps to remedy the situation if necessary.

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. In the short term, any significant strengthening of the Canadian dollar, or further decline in U.S. housing and Vancouver Island real estate markets which affects demand or other unexpected adverse developments could adversely impact the Company's liquidity.

TIMBERWEST FOREST CORP.

NOTES TO THE UNAUDITED INTERIM CONSOLIDATED FINANCIAL STATEMENTS (continued)

For the three months ended March 31, 2009 and 2008
(Unaudited and in millions of dollars, except per common share amounts)

3. Adoption of new accounting policies

Goodwill and intangible assets, Section 3064
Effective January 1, 2009, the Company adopted the new Canadian Institute of Chartered Accountants (“CICA”) Handbook Section 3064, *Goodwill and Intangible Assets.* This section replaces CICA Handbook Section 3062, *Goodwill and Intangible Assets*, and establishes revised standards for the recognition, measurement, presentation and disclosure of goodwill and intangible assets. The new standard also provides guidance for the treatment of various pre-production and start-up costs and requires that these costs be expensed as incurred, with the concurrent withdrawal of CICA Emerging Issues Committee Abstract 27 (“EIC 27”). The adoption of this section had no impact on the Company’s accounting on a retrospective basis.

4. Segmented information

Commencing in 2009, the Company has identified two reporting segments:

Timberlands - The timberland division maximizes value by harvesting logs in a cost-effective manner consistent with sound safety, environmental and sustainable forestry practices and selling logs to targeted customers in both the domestic and higher value export markets.

Real Estate – Couverdon, the real estate division of TimberWest, has developed a long range strategic plan to realize value from land that has a higher and better use than timberlands.

The segments are managed separately. During the first quarter of 2009, the Company branded its real estate division “Couverdon.”

5. Discontinued operations

On May 9, 2008, the Elk Falls sawmill in Campbell River, B.C. was permanently closed including the associated shipping operations at Stuart Channel Wharves located in Crofton, B.C. Subsequent to the closure, TimberWest disposed of all the sawmill assets and dismantled 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 March 31	
	2009	2008
Sales	**$ -**	$ 13.0
Loss before income taxes	**$ (0.1)**	$ (0.4)
Net loss	**$ (0.1)**	$ (0.4)

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 months ended March 31, 2009 were nil (2008 - $8.6 million).

NOTES TO THE UNAUDITED INTERIM CONSOLIDATED FINANCIAL STATEMENTS (continued)

For the three months ended March 31, 2009 and 2008

(Unaudited and in millions of dollars, except per common share amounts)

5. Discontinued operations (continued)

	Three months ended March 31	
	2009	2008
Cash flow from operating activities	**$ (0.6)**	$ 0.3
Cash flow from financing activities	**-**	-
Cash flow from investing activities	**-**	-
Cash provided by operations	**$ (0.6)**	$ 0.3

6. Income taxes

	Three months ended March 31	
	2009	2008
Current income tax	**$ -**	$ -
Future income tax recovery	**(8.8)**	(4.7)
	$ (8.8)	$ (4.7)

In the first quarter of 2009, British Columbia provincial tax legislation was substantively enacted, resulting in the reduction of the provincial corporate tax rate to 10.5% for the year ending December 31, 2010 and 10% thereafter. This tax rate change resulted in a future income tax recovery of $8.7 million and is included in the future income tax recovery for the 3 months ended March 31, 2009.

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 for the three months ended March 31, 2008.

NOTES TO THE UNAUDITED INTERIM CONSOLIDATED FINANCIAL STATEMENTS (continued)

For the three months ended March 31, 2009 and 2008
(Unaudited and in millions of dollars, except per common share amounts)

7. Earnings (loss) per share

	Three months ended March 31	
	2009	2008
Net loss from continuing operations	**$ (7.6)**	$ (22.9)
Net loss	**(7.7)**	(23.3)
Basic weighted average number of common shares	**77,765,440**	77,751,368
Incremental common shares from potential exercise of options	**1,215**	37,573
Diluted weighted average number of common shares	**77,766,655**	77,788,941
Basic and diluted net loss from continuing operations per common share	**$ (0.10)**	$ (0.29)
Basic and diluted net loss from discontinued operations per common share	**$ -**	$ (0.01)
Basic and diluted net loss per common share	**$ (0.10)**	$ (0.30)

The convertible debentures issued during Q1, 2009 have been considered in the computation of diluted earnings per share and were determined to have been anti-dilutive.

8. Inventories

	March 31, 2009	December 31, 2008
Logs	**$ 31.2**	$ 29.1

For the three months ended March 31, 2009, log inventory was written down by $0.5 million which was expensed to cost of sales for the period (Q1, 2008 – $1.8 million).

9. Property, plant and equipment

Property, plant and equipment at March 31, 2009, includes private lands with a carrying value of $1,171.9 million (December 31, 2008 - $1,170.9 million). This amount includes a valuation increase adjustment of $375.8 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.

NOTES TO THE UNAUDITED INTERIM CONSOLIDATED FINANCIAL STATEMENTS (continued)

For the three months ended March 31, 2009 and 2008

(Unaudited and in millions of dollars, except per common share amounts)

10. Other assets

	March 31, 2009	December 31, 2008
Deferred financing costs	**$ 4.4**	$ 1.4
Financial instruments	**4.3**	4.7
Other	**0.9**	1.0
	$ 9.6	$ 7.1

Financial instruments of $4.3 million include the value of two embedded derivatives as outlined below.

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 15). 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 of this option is $3.7 million (2008 - $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 (2008 - $0.6 million).

11. Credit facilities

The Company's credit facilities are as follows:

	March 31, 2009	December 31, 2008
Secured revolving credit facility of up to $250.0 million due February 11, 2012 with interest based on Canadian or U.S. Prime rates + 5%, or Canadian BA rates + 6%	**$ 144.0**	$ -
Unsecured long-term revolving facility (Tranche A) of up to $216.7 million due September 24, 2012 with interest based on Canadian Prime/BA or U.S. LIBOR rates + 0.9%[1]	**-**	189.8
Unsecured term facility (Tranche B) of up to $108.3 million due September 24, 2009 with interest based on Prime rates[1]	**-**	108.3
Total long-term debt	**$ 144.0**	$ 298.1
Less current portion	**-**	(108.3)
	$ 144.0	$ 189.8

1 The long-term revolving facility of $216.7 million and the term facility of $108.3 million were effectively extinguished with the amended and restated credit facility.

On February 11, 2009 the Company raised $150 million by way of a 9% five-year convertible debenture issue (note 12). The net proceeds of the convertible debentures were used by the Company to permanently repay $75 million of indebtedness under its bank credit facilities, with the remainder being used to reduce indebtedness under the Company's revolving credit facilities. The Company and its lenders completed a new $250 million three-year secured revolving credit refinancing arrangement as described in detail below.

Under this facility, funds are available to the Company in Canadian and US dollars by way of adjusted Canadian bankers' acceptances plus 6%, or Canadian or U.S. prime rates plus 5% loans and letters of credit. This facility has been underwritten by a syndicate of banks and is due on February 11, 2012.

NOTES TO THE UNAUDITED INTERIM CONSOLIDATED FINANCIAL STATEMENTS (continued)

For the three months ended March 31, 2009 and 2008

(Unaudited and in millions of dollars, except per common share amounts)

11. Credit facilities (continued)

The facility includes financial covenants to maintain:

- minimum bank EBITDA for the period January 1, 2009 to June 30, 2009 to negative $16.0 million;
- minimum bank EBITDA for the period January 1, 2009 to December 31, 2009 to negative $16.0 million;
- minimum bank EBITDA per quarter for the eight quarters of 2010 and 2011 of $8.3 million, $16.2 million, $24.1 million, $32.0 million, $40.7 million, $49.4 million, $58.1 million and $66.8 million, respectively;
- consolidated tangible net worth at the end of each quarter in excess of $700 million;
- consolidated debt is less than 40% of capitalization;
- consolidated debt is less than 40% of the market value of the Company's private timberlands and higher use properties.

Bank EBITDA calculations include full proceeds (net of commissions) of real estate sales and other items. At March 31, 2009 the Company is in compliance with the terms of its credit facility.

The 2009 transaction costs related to this refinancing were $3.5 million (2008 - $1.1 million) and have been deferred and capitalized on the balance sheet as they relate to debt refinancing held at amortized cost.

12. Convertible debentures

On February 11, 2009, the Company raised $150 million by way of a 9% five-year convertible debenture issue. 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 and through a $50 million rights offering to unitholders. The convertible debentures mature on February 11, 2014 and are convertible into Stapled Units at $3.50. The convertible debentures pay interest quarterly at 9% with the first interest payment made on April 15, 2009.

The Company has elected to designate this obligation as 'held-for-trading' and it will be revalued at fair value at each reporting date. Changes in fair value from one period to the next will be recognized against net income in the period. Transaction costs of $5.4 million were incurred and expensed to the statement of operations in the period.

NOTES TO THE UNAUDITED INTERIM CONSOLIDATED FINANCIAL STATEMENTS (continued)

For the three months ended March 31, 2009 and 2008

(Unaudited and in millions of dollars, except per common share amounts)

13. Employee future benefits

	March 31, 2009	December 31, 2008
Pension benefits	$ 9.4	$ 9.4
Non-pension benefits	27.3	27.3
	$ 36.7	$ 36.7

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 March 31, 2009, the Company recorded an expense of $0.4 million for pension benefit costs (2008 – $0.5 million) and made cash payments of $0.5 million to fund current service costs (2008 – $0.5 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 March 31, 2009, the Company recorded an expense of $0.6 million for non-pension benefit costs (2008 - $0.8 million) and made cash payments of $0.6 million to fund current benefit costs (2008 – $0.5 million).

14. Deferred distribution payable

	March 31, 2009	December 31, 2008
April 15, 2009 distribution (2%) with a face value of $3.5 million due by October 15, 2010	$ 3.1	$ -
January 15, 2009 distribution (12%) with a face value of $21.0 million due by April 15, 2011	18.2	17.8
	$ 21.3	$ 17.8

The Company can defer distributions on its Series A Subordinate Notes after December 31, 2008 for up to 18 months while the distribution rate is set at 2% (note 15) and defer the January 15, 2009 distribution for up to 27 months. As a result of these deferrals, the deferred distribution payable is accounted for at its fair value and the obligation is revalued at each reporting date.

NOTES TO THE UNAUDITED INTERIM CONSOLIDATED FINANCIAL STATEMENTS (continued)

For the three months ended March 31, 2009 and 2008

(Unaudited and in millions of dollars, except per common share amounts)

15. Stapled units

		Stapled Unit Components		
	Number	Series A Subordinate Notes	Share Capital[1]	Total
Three months ended March 31, 2008:				
Balance, December 31, 2007	77,750,143	$ 698.1	$ 191.0	$ 889.1
Issuance of Stapled Units on exercise of options	2,720	-	-	-
Balance, March 31, 2008	77,752,863	$ 698.1	$ 191.0	$ 889.1
Three months ended March 31, 2009:				
Balance, December 31, 2008	77,765,440	$ 240.4	$ 191.0	$ 431.4
Issuance of Stapled Units on exercise of options	-	**-**	**-**	**-**
Accretion on Series A Subordinate Notes	-	**1.6**	**-**	**1.6**
Change in fair value of option to defer interest payment	-	**(0.4)**	**-**	**(0.4)**
Change in fair value of option to extend maturity	**-**	**-**	**-**	**-**
Balance, March 31, 2009	**77,765,440**	**$ 241.6**	**$ 191.0**	**$ 432.6**

1 Share capital consists of common and preferred shares.

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.

NOTES TO THE UNAUDITED INTERIM CONSOLIDATED FINANCIAL STATEMENTS (continued)

For the three months ended March 31, 2009 and 2008

(Unaudited and in millions of dollars, except per common share amounts)

15. 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 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 11) and convertible debentures (note 12). 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.

In accordance with Canadian GAAP, the note amendments had the effect of extinguishing the previous debt associated with the Series A Subordinate Notes and triggered a revaluation of debt on the extinguishment date at December 31, 2008. As a result of this revaluation the Company 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 on December 31, 2008. The write-down had no tax consequence to the holders of the notes.

The revalued Series A Subordinate Notes have been measured by the Company under Canadian GAAP at amortized cost 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 on maturity. In Q1, 2009, accretion recognized in the statement of operations was $1.6 million, and interest accrued and payable to the holders of the Series A Subordinate Notes was $3.4 million for total interest expense of $5.0 million.

At December 31, 2008, transaction costs of $0.9 million had been deferred and offset against the Series A Subordinate Notes and are being amortized using the effective rate method over the life of the Series A Subordinate Notes until maturity.

The option to defer interest distributions to the holders of the Stapled Units for up to 18 months is an embedded derivative under Canadian GAAP and is revalued at each reporting date. As at March 31, 2009 the fair value of this option is $3.7 million (December 31, 2008 - $4.1 million) and is accounted for as Other Assets (note 10).

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 Canadian GAAP and is revalued at each reporting date. As at March 31, 2009 the fair value of this option is $0.6 million (December 31, 2008 - $0.6 million) and is accounted for as Other Assets (note 10).

NOTES TO THE UNAUDITED INTERIM CONSOLIDATED FINANCIAL STATEMENTS (continued)

For the three months ended March 31, 2009 and 2008

(Unaudited and in millions of dollars, except per common share amounts)

16. Stapled Unit option plan

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 March 31, 2009, there were 1,696,827 Stapled Unit options granted at an average exercise price of $3.00 (Q1, 2008 – no Stapled Unit options were granted).

The option to acquire a Stapled Unit effectively provides the option holder with an option on the Series A Subordinated Note component and an option on the equity components of the Stapled Unit. An option to acquire a debt instrument is accounted for under the intrinsic value method whereby the compensation cost is determined each period based on the fair value of the debt instrument compared to the exercise price of the option to acquire the debt instrument. The fair value of the equity components is based on the fair value of the option as determined using an option pricing model. Historically, the Company has determined that the intrinsic value of the option to acquire the Series A Subordinate Notes has not been material and the fair value of the option has been recorded in equity as contributed surplus based on the fair value as determined by the Black Scholes option pricing model.

With the recent changes to the Series A Subordinate Note terms including modifying the interest rate to a variable rate from 2% to 12% which is ultimately based on distributable cash levels and the current market value of the Stapled Unit which is below the face value of the Series A Subordinate Note, the Company has determined that the value of the Stapled Unit option is now in the debt component and that the equity option value is immaterial. As a result, the accounting for the options issued in the period has been done using the intrinsic value method.

On this basis, the compensation cost for the 1,696,827 Stapled Unit options granted between January 1, 2009 and March 31, 2009, based on an intrinsic value method of accounting, was $0.1 million and was expensed in the period with a corresponding credit to the Stapled Unit option plan liability (Q1, 2008 – no Stapled Unit options were granted).

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.

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 March 31, 2009, no amount was accrued as no distributions were paid (2008 – $0.3 million) and $0.1 million has been amortized against earnings for the quarter (2008 – $0.3 million).

During the three months ended March 31, 2009, no Stapled Unit options were exercised, 47,500 Stapled Unit options with an average exercise price of $12.72 were cancelled, and 199,080 Stapled Unit options with an average exercise price of $12.65 expired (2008 – 2,720 Stapled Unit options with an average exercise price of $11.90 were exercised and 1,500 Stapled Unit options with an average price of $16.26 were cancelled).

NOTES TO THE UNAUDITED INTERIM CONSOLIDATED FINANCIAL STATEMENTS (continued)

For the three months ended March 31, 2009 and 2008

(Unaudited and in millions of dollars, except per common share amounts)

17. Financial instruments

Accounting for financial instruments

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, 2008.

On February 11, 2009, the Company issued convertible debentures (note 12), the Company has designated these as held-for-trading and the carrying values are accounted for at fair value. The convertible debentures will be revalued at fair value at each reporting date and changes in fair value from one period to the next will be recognized against net income in the period. Transaction costs of $5.4 million were incurred and expensed to the statement of operations in the period.

18. Comparative figures

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

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.

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

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