TIMBERWEST FOREST CORP.

For immediate release: July 23, 2009

TIMBERWEST ANNOUNCES 2009 SECOND QUARTER RESULTS

Vancouver (BC) - In spite of depressed business conditions, TimberWest continues to manage its business to reduce costs and preserve value for the long run. Very weak timberland markets at home and abroad have resulted in record low harvest levels and sales realizations. Log sales volumes were down 41% in Q2, 2009 compared to the equivalent prior year period and logging production was down 56%, this combined with pricing at all time lows resulted in log sales revenues tracking at about a third of normal levels.

Consequently, the Company generated a distributable cash loss for the quarter ended June 30, 2009 of $5.4 million, or $0.07 per Stapled Unit, compared to a distributable cash loss of $3.2 million, or $0.04 per Stapled Unit in Q2, 2008. On a year-to-date basis, the distributable cash loss was $20.7 million which includes $9.0 million of financing costs in the first quarter. This compares to a distributable cash loss of $7.1 million, or $0.09 per Stapled Unit, for the first half of 2008.

On the positive side, real estate revenues were $6.7 million for the quarter higher than this time last year and higher than the first quarter of the year. With respect to subdivision of harvesting contracts in our timberlands division, the Company continues to award new contracts which are expected to result in significant cost savings to the Company when harvest levels return to normal levels. The Company continues to show outstanding results with regards to safety performance. Finally, third party surveillance audits were successfully completed of the Company's environmental certifications, IS14001, SFGI and PEFC Annex (4) with no nonconformance

"We have not changed our outlook for the remainder of the year, given that extremely difficult economic conditions are expected to remain essentially unchanged," said Paul McElligott, President and Chief Executive Officer, TimberWest.

Given the Company's lack of visibility on the recovery, it is prudent to conserve cash and protect the balance sheet wherever possible. As such the Company has made the decision to pay the interest on the convertible debentures with convertible debentures (in kind) beginning on October 15, 2009. The Company has approval from its unitholders to pay the convertible debentures interest in kind for four quarters at which point, if the Company still requires the ability to pay the interest in kind, it will require further unitholder approval to do so.

"TimberWest has lowered its harvesting plans on its public and private lands to 1.2 million m^3 for the year and will continue to do whatever it can to manage costs down in this environment while continuing with its deferred harvest strategy. Leaving trees to grow on the stump today preserves value and in the long run our trees will increase in size and value," added McElligott. "While our short term outlook has not changed, we also have not changed our bullish views on the mid- and long-term potential of both our timberland and real estate businesses. We own a superb asset base in a very desirable part of the world."

QUARTERLY CONFERENCE CALL

TimberWest will hold a conference call at 7:30 am PT (10:30 am ET) on Friday, July 24, 2009, to discuss results of the second quarter. To access the conference call, listeners should dial 1-800-950-7243. For those unable to participate in the live call, a recording of the call will be available until August 7, 2009, and can be accessed at 1-800-558-5253 using code 21431160. 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.

TIMBERWEST FOREST CORP.

TO OUR UNITHOLDERS

In spite of depressed business conditions, TimberWest continues to manage its business to reduce costs and preserve value for the long run. Very weak timberland markets at home and abroad have resulted in record low harvest levels and sales realizations. Log sales volumes were down 41% in Q2, 2009 compared to the equivalent prior year period and logging production was down 56%, this combined with pricing at all time lows resulted in log sales revenues tracking at about a third of normal levels.

Consequently, the Company generated a distributable cash loss for the quarter ended June 30, 2009 of $5.4 million, or $0.07 per Stapled Unit, compared to a distributable cash loss of $3.2 million, or $0.04 per Stapled Unit in Q2, 2008. On a year-to-date basis, the distributable cash loss was $20.7 million which includes $9.0 million of financing costs in the first quarter. This compares to a distributable cash loss of $7.1 million, or $0.09 per Stapled Unit, for the first half of 2008.

EBITDA for purposes of the bank covenant calculation for the first half of the year was negative $1.6 million, compared to the minimum EBITDA test under the credit agreement for the first half of 2009 of negative $16.0 million. The next minimum EBITDA test that the Company is required to satisfy is for the calendar year ending December 31, 2009. This test is also set at 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 on those sales.

As disclosed in the previous quarter, TimberWest expects to remain in compliance with all of its bank covenants in 2009 however 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 as currently constructed in 2010. The Company is taking proactive steps to remedy the situation.

Timberland Operational Results

Log sales in Q2, 2009 were 436,000 m^3 with just under half the volume sold in the domestic market and the balance in the export market. On a year to date basis, log sales were 819,000 m^3 with 53% sold domestically. The coastal BC conversion industry further increased curtailments during this quarter. BC coastal mill demand for logs remains well below historic levels. Logging production is also at historical lows and is estimated to be at an annual rate of approximately 9 million m^3.

US housing starts remained at very depressed levels during the quarter, negatively impacting demand for both logs and lumber. TimberWest's log exports into the U.S. market were only 39,000 m^3 in Q2, 2009, compared to 63,000 m^3 during the same period last year.

Asian log markets performed better than both the domestic and U.S. markets during the quarter. Sales volumes to Asia were down 19% in Q2, 2009 versus Q2, 2008. On a year-to-date basis, log sales volumes to Asia were down 12% compared to 2008. Log exports to Japan were down some 70,000 m^3 during the quarter compared to Q2, 2008 reflecting the decline in Japanese housing starts. Export volumes to other Asian markets were up 28,000 m^3. Sales realizations for Asian log exports were higher for both the quarter and on a year-to-date basis.

Unit production costs in Q2, 2009 were $80 per m^3 and year to date were $74 per m^3. This compares to $60 per m^3 for the Q2, 2008 and $65 per m^3 year to date, 2008. Unit costs remain considerably higher as a result of the absorption of fixed costs with the low harvest volumes.

Three positive notes in Q2, 2009 relate to the implementation of the sub-divided contractor model, our safety results and our environmental certification. With respect to subdivision of harvesting contracts in our timberlands division, the Company has awarded several new contracts in our south Island operations and continues to work on selecting contractors for the remaining operations. Once fully implemented and harvest volumes return to normal levels, we expect to realize cost savings in excess of $10 million per year from what they would otherwise have been.

Tracking of our safety performance continued to show outstanding results on this key corporate initiative. The Timberlands MIR for production contractors for Q2,2009 was 0.38 based on reportable incidents per 100,000 m^3 of production. This compares to 0.83 for Q2 of 2008.

Finally, third party surveillance audits were successfully completed of the Company's environmental certifications, IS14001, SFGI and PEFC Annex (4) with no nonconformance.

Couverdon Results

Net proceeds from non-core land sales for Q2, 2009 improved from the first quarter at $5.9 million, or $3,300 per acre. This compares to proceeds of $4.6 million, or $10,000 per acre, during Q2, 2008. Net real estate proceeds on a year to date basis are $6.1 million, or $3,300 per acre, compared to $7.0 million or $ 14,300 per acre from this same period last year. Including other revenue generated by Couverdon, on a year to date basis, total revenue from real estate was $6.9 million.

Other Second Quarter 2009 Updates

During the quarter, TimberWest was successful in listing the convertible debentures issued in February on the TSX.

During Q2, 2009 the City of Campbell River increased its tax rate on Class 7 managed forest lands. TimberWest filed a petition with the B.C. Supreme Court on June 9, 2009 to challenge this tax increase and a court hearing date is scheduled for early September. TimberWest has paid the full assessed property taxes. In Q2, 2009 the Company expensed $626,849 in relation to the tax increase with the remaining capitalized on the Consolidated Balance Sheets which will be expensed over the remainder of the year. Any recovery based on the decision from the Courts would be recorded as a property tax recovery on the Consolidated Statements of Operations and Comprehensive Income at that time.

Outlook

We have not changed our outlook for the remainder of the year, given that extremely difficult economic conditions are expected to remain essentially unchanged. While reviewed monthly, TimberWest has lowered its harvesting plans on its public and private lands to 1.2 million m^3 for the year and will continue to do whatever it can to manage costs down in this environment while continuing with its deferred harvest strategy. Leaving trees to grow on the stump today preserves value and in the long run our trees will increase in size and value.

Given the Company's lack of visibility on the recovery, it is prudent to conserve cash and protect the balance sheet wherever possible. As such the Company has made the decision to pay the interest on the convertible debentures with convertible debentures (in kind) beginning on October 15, 2009. The Company has approval from its unitholders to pay the convertible debentures interest in kind for four quarters at which point, if the Company still requires the ability to pay the interest in kind, it will require further unitholder approval to do so.

While our short term outlook has not changed, we also have not changed our bullish views on the mid- and long-term potential of both our timberland and real estate businesses. We own a superb asset base in a very desirable part of the world. On the timberlands side, the projected global supply/demand dynamics for timber products following this downturn are very compelling. This upside in timber is also accompanied by the mid and long term opportunity of unlocking significant value with our real estate assets.

Thank you again to all of our unitholders for your ongoing support during these difficult times. Like all of you, I look forward to much better days once we get beyond this downturn.

On behalf of the Board of Directors,

Paul McElligott
President and Chief Executive Officer
Vancouver, British Columbia
July 23, 2009

TIMBERWEST FOREST CORP.

MANAGEMENT'S DISCUSSION & ANALYSIS

For the three and six months ended June 30, 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 second quarter of 2009 ("second quarter" or "Q2"). This discussion and analysis provides an overview of significant developments that have affected TimberWest's performance during the second quarter of 2009 relative to the second quarter of 2008, and that have affected the Company's financial position as at June 30, 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 July 23, 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)	Three months ended June 30 2009	2008	Six months ended June 30 2009	2008
Sales	**$ 38.0**	$ 57.0	**$ 68.4**	$ 89.0
Operating earnings (loss) from continuing operations	**(4.6)**	4.1	**(7.7)**	0.1
Operating earnings (loss) from continuing operations - % of sales	**(12.1)%**	7.2%	**(11.3)%**	0.1%
Net loss from continuing operations	**(30.2)**	(18.9)	**(37.8)**	(41.8)
EBITDA from continuing operations[1]	**(3.6)**	5.5	**(5.9)**	2.8
EBITDA [1]	**(3.7)**	(2.0)	**(6.1)**	(5.1)
EBITDA for covenant purposes[1]	**0.4**	(0.6)	**(1.6)**	(1.9)
Distributable cash from continuing operations[1]	**(5.3)**	4.3	**(20.5)**	0.8
Distributable cash[1]	**(5.4)**	(3.2)	**(20.7)**	(7.1)
Per Stapled Units – basic and diluted (in dollars)				
EBITDA from continuing operations[1]	**(0.05)**	0.07	**(0.08)**	0.04
EBITDA[1]	**(0.05)**	(0.03)	**(0.08)**	(0.07)
Distributable cash from continuing operations[1]	**(0.07)**	0.06	**(0.26)**	0.01
Distributable cash[1]	**(0.07)**	(0.04)	**(0.27)**	(0.09)
Timberland sales	**31.3**	52.1	**61.5**	81.3
Real estate sales	**6.7**	4.9	**6.9**	7.7
Stapled Units (thousands)				
At period-end	**77,777**	77,765	**77,777**	77,765
Basic weighted average	**77,770**	77,754	**77,768**	77,753
Diluted weighted average	**78,015**	77,786	**77,855**	77,787

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 $19.0 million or 33% in the second quarter of 2009 compared to Q2, 2008, and decreased by $20.6 million or 23% year to date over the prior year. The decrease is primarily due to a decrease in log sales realizations and decreased log sales volumes and partially offset by increased real estate sales and a weaker Canadian dollar.

Reconciliation of net loss from continuing operations to EBITDA

(in millions of dollars)	Three months ended June 30 2009	2008	Six months ended June 30 2009	2008
Net loss from continuing operations	**$ (30.2)**	$ (18.9)	**$ (37.8)**	$ (41.8)
Add (deduct):				
Interest on Series A Subordinate Notes owned by unitholders	**3.5**	21.0	**6.9**	42.0
Interest on convertible debentures	**3.4**	-	**5.1**	-
Interest on long-term bank debt	**2.6**	1.9	**4.7**	4.4
Interest on short-term bank debt	**-**	0.6	**0.5**	0.7
Income tax expense (recovery)	**0.5**	(0.5)	**(8.3)**	(5.2)
Depreciation, depletion and amortization	**0.9**	1.3	**1.8**	2.5
Amortization of deferred financing costs	**0.4**	0.1	**0.9**	0.2
Change in fair value of financial instruments held for trading	**13.6**	-	**11.6**	-
Financing transaction costs	**0.1**	-	**5.5**	-
Accretion on Series A Subordinate Notes	**1.6**	-	**3.2**	-
EBITDA from continuing operations[1]	**(3.6)**	5.5	**(5.9)**	2.8
EBITDA from discontinued operations[1,2]	**(0.1)**	(7.5)	**(0.2)**	(7.9)
EBITDA[1]	**$ (3.7)**	$ (2.0)	**$ (6.1)**	$ (5.1)

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)	Three months ended June 30 2009	2008	Six months ended June 30 2009	2008
Net loss from continuing operations	**$ (30.2)**	$ (18.9)	**$ (37.8)**	$ (41.8)
Interest on Series A Subordinate Notes owned by unitholders	**3.5**	21.0	**6.9**	42.0
Earnings (loss) from continuing operations available for distribution	**(26.7)**	2.1	**(30.9)**	0.2
Accretion on Series A Subordinate Notes	**1.6**	-	**3.2**	-
Change in fair value of financial instruments held for trading	**13.6**	-	**11.6**	-
Income tax expense (recovery)	**0.5**	(0.5)	**(8.3)**	(5.2)
Earnings (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	**(11.0)**	1.6	**(24.4)**	(5.0)
Add (deduct):				
Depreciation, depletion and amortization	**1.3**	1.4	**2.7**	2.7
Proceeds from sale of property, plant & equipment	**5.9**	4.6	**6.1**	7.0
Gain on sale of property, plant and equipment	**(1.8)**	(3.3)	**(1.6)**	(3.8)
Additions to property, plant and equipment	**(0.1)**	(0.3)	**(0.4)**	(0.8)
Financing transaction costs	**-**	-	**(3.5)**	-
Other non-cash items	**0.4**	0.3	**0.6**	0.7
	5.7	2.7	**3.9**	5.8
Distributable cash from continuing operations	**(5.3)**	4.3	**(20.5)**	0.8
Distributable cash from discontinued operations[1]	**(0.1)**	(7.5)	**(0.2)**	(7.9)
Distributable cash	**$ (5.4)**	$ (3.2)	**$ (20.7)**	$ (7.1)

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)	Three months ended June 30 2009	2008	Six months ended June 30 2009	2008
Earnings (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	**$ (0.14)**	$ 0.02	**$ (0.31)**	$ (0.06)
Distributable cash from continuing operations	**(0.07)**	0.06	**(0.26)**	0.01
Distributable cash from discontinued operations[1]	**-**	(0.10)	**(0.01)**	(0.10)
Distributable cash	**(0.07)**	(0.04)	**(0.27)**	(0.09)
Cash distributions paid	**$ -**	$ 0.27	**$ -**	$ 0.54

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

Reconciliation of operating cash flow from operations to distributable cash

(in millions of dollars)	Three months ended June 30 2009	2008	Six months ended June 30 2009	2008
Cash provided by (used in) continuing operations	**$ 1.6**	$ (13.7)	**$ (19.3)**	$ (35.4)
Add (deduct):				
Change in non-cash working capital	**(13.1)**	(7.3)	**(3.8)**	(11.8)
Interest on Series A Subordinate Notes owned by unitholders	**3.5**	21.0	**6.9**	42.0
Proceeds from sale of property, plant and equipment	**5.9**	4.6	**6.1**	7.0
Additions to property, plant and equipment	**(0.1)**	(0.3)	**(0.4)**	(0.8)
Financing transaction costs	**-**	-	**(3.5)**	-
Change in deferred distribution payable	**(3.5)**	-	**(6.9)**	-
Other non-cash items	**0.4**	-	**0.4**	(0.2)
	(6.9)	18.0	**(1.2)**	36.2
Distributable cash from continuing operations	**(5.3)**	4.3	**(20.5)**	0.8
Distributable cash from discontinued operations[1]	**(0.1)**	(7.5)	**(0.2)**	(7.9)
Distributable cash	**$ (5.4)**	$ (3.2)	**$ (20.7)**	$ (7.1)

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	**(5.4)**	(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
	$ (20.7)	$ (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	**(0.07)**	(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
	$ (0.27)	$ (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

Preferred share conversions

On May 7, 2009 the Company's preferred shares were converted into common shares and consolidated in order to simplify TimberWest's capital structure and eliminate administrative burdens and related expenses associated with maintaining the preferred shares. Each TimberWest Stapled Unit contains one Series A Subordinate Note and one common share. The conversion and consolidation should have no adverse tax consequences for unitholders, provided that they meet the requirements described in the Information Circular dated March 30, 2009 under the heading "Particulars of Other Matters to be Acted Upon – Certain Canadian Federal Income Tax Consequences". The conversion and consolidation was approved by the unitholders on May 6, 2009 and were approved by the Toronto Stock Exchange ("TSX").

Property taxes

During Q2, 2009 the City of Campbell River increased its tax rate on Class 7 managed forest lands. TimberWest filed a petition with the B.C. Supreme Court on June 9, 2009 to challenge this tax increase and a court hearing date is scheduled for early September. TimberWest has paid the full assessed taxes. In Q2, 2009 the Company expensed $626,849 in relation to the tax increase with the remaining capitalized on the Consolidated Balance Sheets which will be expensed over the remainder of the year. Any recovery based on the decision from the Courts would be recorded as a property tax recovery on the Consolidated Statements of Operations and Comprehensive Income at that time.

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 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 $9.0 million (2008 - $1.1 million). In the first two quarters of 2009, $5.5 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 $9.0 million was deducted from distributable cash.

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Cash distribution on the Stapled Units

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 distribution payments are deferred for 18 months.

4. Operating Highlights

Timberlands

(in millions of dollars except where otherwise noted)	Three months ended June 30 2009	2008	Six months ended June 30 2009	2008
Log sales				
Domestic	**$ 11.2**	$ 26.4	**$ 23.8**	$ 39.4
Export – Asia	**16.9**	20.6	**31.3**	34.1
Export - USA	**1.9**	3.5	**4.2**	5.2
Total log sales	**$ 30.0**	$ 50.5	**$ 59.3**	$ 78.7
Log sales realizations ($/m^3)				
Domestic	**$ 53**	$ 68	**$ 55**	$ 68
Export – Asia	**92**	90	**98**	94
Export - USA	**49**	56	**63**	62
Total log sales realizations	**$ 69**	$ 74	**$ 72**	$ 77
Log sales volume (thousand m^3)				
Domestic	**213.2**	387.4	**433.0**	581.2
Export – Asia	**184.5**	227.8	**319.2**	362.3
Export - USA	**39.0**	63.0	**66.8**	84.4
Total log sales volume	**436.7**	678.2	**819.0**	1,027.9
Log sales mix (thousand m^3)				
Fir	**291.4**	476.8	**539.6**	705.8
Hembal	**106.3**	131.7	**181.7**	210.7
Cedar	**18.0**	39.3	**44.7**	55.0
Other	**21.0**	30.4	**53.0**	56.4
Total log sales mix	**436.7**	678.2	**819.0**	1,027.9
Log production volume (thousand m^3)				
Public tenures	**22.1**	87.4	**35.7**	194.8
Private timberlands	**241.0**	514.5	**539.1**	791.4
Total production volume	**263.1**	601.9	**574.8**	986.2
Log production costs ($/m^3)	**$ 80**	$ 60	**$ 74**	$ 65
Timberland cost of sales ($/m^3)	**73**	65	**73**	68
Timberland operating margin (% of log sales)	**(8)%**	11%	**(2)%**	7%

Log sales revenues for the three months ended June 30, 2009 were down 41% from the same quarter last year due to a 36% decrease in the sales volumes and a $5 per m^3 decrease in average log sales realizations. Log sales revenues for the six months ended June 30, 2009 were down 25% from the same period last year due to a 20% decrease in the sales volumes and a $5 per m^3 decrease in average log sales realizations.

Unit logging production costs for the three and six months ended June 30, 2009 were markedly higher than the same periods last year primarily as a result of higher absorption of fixed costs as a result of the considerably lower production volumes. Somewhat higher road building and transportation costs were also contributing factors. Unit cost of sales did not increase by the same amount because log purchase costs decreased.

TIMBERWEST FOREST CORP.

Real estate

(in millions of dollars except where otherwise noted)	Three months ended June 30 2009	2008	Six months ended June 30 2009	2008
Sales	**$ 6.7**	$ 4.9	**$ 6.9**	$ 7.7
Net proceeds	**5.9**	4.6	**6.1**	7.0
Net proceeds per acre ($/acre)	**3,286**	10,081	**3,317**	14,339

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 Q2, 2009 the real estate division sold four properties for net proceeds of $5.9 million or $3,286 per acre compared to Q2, 2008 when the division sold four properties for net proceeds of $4.6 million or $10,081 per acre. Included in sales for Q2, 2009 is $0.5 million relating to a right-of-way agreement entered into during the quarter.

During the six months ended June 30, 2009 the real estate division sold five properties for net proceeds of $6.1 million or $3,317 per acre compared to the same period in 2008 when the division sold five properties for net proceeds of $7.0 million or $14,339 per acre. Included in sales for the six month period ending June 30, 2009 is $0.5 million relating to a right-of-way agreement entered into during the quarter.

The reduction in per acre values compared to the prior year is attributable to the lower value mix of properties sold and to a much lesser extent, an overall reduction in the real estate market.

Discontinued Operations

(in millions of dollars except where otherwise noted)	Three months ended June 30 2009	2008	Six months ended June 30 2009	2008
Sales	**$ -**	$ 22.4	**$ -**	$ 35.4
Operating loss	**(0.1)**	(7.5)	**(0.2)**	(7.9)

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 June 30, 2009 and December 31, 2008:

(in millions of dollars)	June 30, 2009	December 31, 2008	Increase / (decrease)	
Cash and cash equivalents	**$ 1.0**	$ 30.8	**$ (29.8)**	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	**30.7**	40.3	**(9.6)**	The decrease is primarily due to decrease in inventory.
Property, plant and equipment	**1,217.5**	1,222.0	**(4.5)**	The decrease is due to the sale of five real estate properties, depreciation recorded in the period, and offset by the reclassification of real estate development costs incurred prior to 2009 from prepaids and other assets of $1.3 million .
Other assets	**8.8**	7.1	**1.7**	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	**20.5**	133.7	**(113.2)**	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	**137.5**	189.8	**(52.3)**	The decrease is due to funds received from the convertible debenture issuance enabling the Company to pay down its credit facility.
Convertible debentures	**160.7**	-	**160.7**	The increase is due to the issuance of convertible debentures in Q1 2009, with a face value of $150.0 million. The convertible debentures are recorded at fair value, $160.7 million at June 30, 2009.
Other long-term liabilities	**289.8**	292.6	**(2.8)**	The decrease is due to a lower future income tax liability primarily the result of provincial tax rate reductions and partially offset by the Q1 and Q2 2009 2% distributions payable on the Series A Subordinate Notes.
Series A Subordinate Notes owned by unitholders	**243.7**	240.4	**3.3**	The increase is due to the recognition of accretion and Stapled Units issued during the period.
Unitholders' Equity	**$ 405.8**	$ 443.7	**$ (37.9)**	The decrease is due to the net loss for the period.

6. Liquidity and capital resources

Selected financial information

(in millions of dollars except where otherwise noted)	Three months ended June 30 2009	Three months ended June 30 2008	Six months ended June 30 2009	Six months ended June 30 2008
Cash provided by (used in):				
Operating activities from continuing operations:				
Cash used in operations before changes in non-cash working capital	**$ (11.5)**	$ (21.0)	**$ (23.1)**	$ (47.2)
Changes in non-cash working capital	**13.1**	7.3	**3.8**	11.8
	1.6	(13.7)	**(19.3)**	(35.4)
Financing activities:				
Issuance of Stapled Units on exercise of options	**-**	0.1	**-**	0.1
Credit facilities	**(6.5)**	6.9	**(160.6)**	24.4
Convertible debentures	**-**	-	**150.0**	-
Financing transaction costs	**-**	-	**(3.5)**	-
	(6.5)	7.0	**(14.1)**	24.5
Investing activities:				
Proceeds from sale of property, plant and equipment	**5.9**	4.6	**6.1**	7.0
Additions to property, plant and equipment	**(0.1)**	(0.3)	**(0.4)**	(0.8)
Other assets	**(0.1)**	0.1	**(1.2)**	0.2
	5.7	4.4	**4.5**	6.4
Cash provided by (used in) discontinued operations	**(0.3)**	2.2	**(0.9)**	3.3
Increase (decrease) in cash and cash equivalents	**$ 0.5**	$ (0.1)	**$ (29.8)**	$ (1.2)
Consolidated debt-to-total capitalization ratio[1]	**15:85**	20:80	**15:85**	20:80

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 debt and equity instruments. 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 June 30, 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 of which $75 million was used to permanently pay down the credit facility with the remaining reducing indebtedness under the revolving credit facility and funding Company operations. The Company also had cash on hand of $30.8 million at December 31, 2008.

Financing activities

Cash used in financing activities in Q2, 2009 was $6.5 million, compared to cash provided of $7.0 million in Q2, 2008. The Company used the proceeds from real estate sales to pay down the revolving credit facility during Q2, 2009.

For the six months ending June 30, 2009 cash used in financing activities was $14.1 million, compared to cash provided of $24.5 million in Q2, 2008. The Company issued $150.0 million of convertible debentures in Q1, 2009 of which $75.0 million was used to permanently pay down the credit facility, with the remainder reducing indebtedness under the revolving credit facility and to fund company operations. 2009 transaction costs associated with the refinancing were $9.0 million; $5.5 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.

Stapled Units issued in Q2, 2009 were as a result of debenture conversions, and as such no cash was received. During Q2, 2008 there were 12,577 Stapled Units issued on exercise of options for net proceeds of $0.1 million.

As at July 23, 2009, the Company had 2,666,550 granted and outstanding Stapled Unit option awards and 77,776,574 issued and outstanding Stapled Units.

Investing activities

Cash provided from investing activities in Q2, 2009 was $5.7 million, compared to cash provided of $4.4 million in Q2, 2008. The increase of $1.3 million was due to increased proceeds from the sale of property, plant and equipment, namely real estate, in Q2, 2009 compared to Q2, 2008.

For the six months ended June 30, 2009, cash provided from investing activities was $4.5 million compared to cash provided of $6.4 million for the same period in 2008. The decrease of $1.9 million was due to decreased proceeds from the sale of property, plant and equipment, namely real estate, and increased spending on other assets during the six months ended June 30, 2009 compared to the same period in 2008.

Capital resources

The Company's capital resources at June 30, 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 Q2**	**2009 Q1**	2008 Q4
Borrowing base			
Revolving credit facility (due February 11, 2012)	**$ 250.0**	**$ 250.0**	$ -
Convertible debentures (due February 11, 2014)	**150.0**	**150.0**	-
Tranche A credit facility	**-**	**-**	216.7
Tranche B credit facility	**-**	**-**	108.3
Demand bank facilities	**-**	**-**	-
Total borrowing base	**400.0**	**400.0**	325.0
Letters of credit	**16.4**	**16.6**	16.8
Amount drawn, net	**287.5**	**294.0**	298.1
Available to be drawn	**96.1**	**89.4**	10.1
Cash on hand	**1.0**	**0.5**	30.8
Total liquidity	**$ 97.1**	**$ 89.9**	$ 40.9

As of June 30, 2009, the Company had $97.1 million of available liquidity, comprised of $1.0 million of cash on hand and $96.1 million available to be drawn on its $250.0 million revolving credit facility. Compared to December

31, 2008 the Company's total liquidity increased by $56.2 million, primarily due to the issuance of the convertible debentures and restructuring of the Company's credit facilities.

Debt

At June 30, 2009, the total debt outstanding was $298.2 million. The following table outlines the changes in the Company's long-term debt for the quarter ended June 30, 2009:

Issue (in millions of dollars)	March 31, 2009	Net increase (decrease)	**June 30, 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	$ (6.5)	**$ 137.5**
Convertible debentures with a face value of $150.0 million due February 11, 2014	148.0	12.7 [1]	**160.7**
Total long-term debt	$ 292.0	$ 6.2	**$ 298.2**
Less current portion	-	-	**-**
	$ 292.0	$ 6.2	**$ 298.2**

1 The convertible debentures are designated as "held-for-trading" for accounting purposes and as such are valued at fair value. The increase in Q2, 2009 over Q1, 2009 is the result of a fair value adjustment. The increase was partially offset by the conversion of debentures with a face value of $38,500 during the quarter.

Refer to the Company's Interim Consolidated Financial Statements for the three months ended June 30, 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 June 30, 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 June 30 2009	2008	Six months ended June 30 2009	2008
Sales	**$ 38.0**	$ 57.0	**$ 68.4**	$ 89.0
Operating costs and expenses:				
Cost of sales	**38.9**	48.3	**68.6**	80.1
Selling, administrative and other	**2.8**	3.3	**5.7**	6.3
Depreciation, depletion and amortization	**0.9**	1.3	**1.8**	2.5
	42.6	52.9	**76.1**	88.9
Operating earnings (loss) from continuing operations	**(4.6)**	4.1	**(7.7)**	0.1
Interest expense:				
Series A Subordinate Notes owned by unitholders	**5.1**	21.0	**10.1**	42.0
Convertible debentures	**3.4**	-	**5.1**	-
Long-term bank debt	**2.6**	1.9	**4.7**	4.4
Short-term bank debt	**-**	0.6	**0.5**	0.7
	11.1	23.5	**20.4**	47.1
Financing transaction costs	**0.1**	-	**5.5**	-
Amortization of deferred financing costs	**0.4**	0.1	**0.9**	0.2
Change in fair value of financial instruments held for trading (notes 10 and 12)	**13.6**	-	**11.6**	-
Other expense (income)	**(0.1)**	(0.1)	**-**	(0.2)
	25.1	23.5	**38.4**	47.1
Loss before income taxes from continuing operations	**(29.7)**	(19.4)	**(46.1)**	(47.0)
Income tax expense (recovery) (note 6)	**0.5**	(0.5)	**(8.3)**	(5.2)
Net loss and comprehensive loss from continuing operations	**(30.2)**	(18.9)	**(37.8)**	(41.8)
Net loss and comprehensive loss from discontinued operations (note 5)	**(0.1)**	(7.5)	**(0.2)**	(7.9)
Net loss and comprehensive loss	**$ (30.3)**	$ (26.4)	**$ (38.0)**	$ (49.7)
Basic and diluted loss from continuing operations per share (note 7)	**(0.39)**	(0.24)	**(0.49)**	(0.54)
Basic and diluted loss from discontinued operations per share (note 7)	**-**	(0.10)	**-**	(0.10)
Basic and diluted loss per share (note 7)	**(0.39)**	(0.34)	**(0.49)**	(0.64)

CONSOLIDATED STATEMENTS OF RETAINED EARNINGS (DEFICIT)

Unaudited (in millions of dollars)	Three months ended June 30 2009	2008	Six months ended June 30 2009	2008
Retained earnings, beginning of period	**$ 243.1**	$ (7.8)	**$ 250.8**	$ 15.5
Net loss and comprehensive loss for the period	**(30.3)**	(26.4)	**(38.0)**	(49.7)
Retained earnings (deficit), end of period	**$ 212.8**	$ (34.2)	**$ 212.8**	$ (34.2)

See accompanying notes to the unaudited interim consolidated financial statements.

TIMBERWEST FOREST CORP.

CONSOLIDATED BALANCE SHEETS

(in millions of dollars)	**June 30, 2009** Unaudited	December 31, 2008
Assets		
Current assets:		
Cash	**$ 1.0**	$ 30.8
Accounts receivable	**4.1**	4.1
Inventories (note 8)	**21.6**	29.1
Prepaid expenses and other current assets	**3.3**	3.7
Future income taxes	**1.7**	3.3
Discontinued operations	**-**	0.1
	31.7	71.1
Property, plant and equipment (note 9)	**1,217.5**	1,222.0
Other assets (note 10)	**8.8**	7.1
	$ 1,258.0	$ 1,300.2
Liabilities and Unitholders' Equity		
Current liabilities:		
Term credit facilities (note 11)	**$ -**	$ 108.3
Accounts payable and accrued liabilities	**19.9**	23.9
Discontinued operations	**0.6**	1.5
	20.5	133.7
Revolving credit facilities (note 11)	**137.5**	189.8
Convertible debentures (note 12)	**160.7**	-
Long-term silviculture liability	**2.9**	3.2
Employee future benefits (note 13)	**36.7**	36.7
Deferred distribution payable (note 14)	**24.8**	17.8
Stapled Unit option plan (note 16)	**0.4**	-
Future income taxes	**225.0**	234.9
	608.5	616.1
Series A Subordinate Notes owned by unitholders (note 15)	**243.7**	240.4
	852.2	856.5
Unitholders' equity		
Share capital, consisting of common shares (note 15)	**191.0**	191.0
Contributed surplus	**2.0**	1.9
Retained earnings	**212.8**	250.8
	405.8	443.7
	$ 1,258.0	$ 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 June 30 **2009**	2008	Six months ended June 30 **2009**	2008
Cash provided by (used in):				
Operating activities:				
Net loss from continuing operations	**$ (30.2)**	$ (18.9)	**$ (37.8)**	$ (41.8)
Items not involving cash:				
Depreciation, depletion and amortization	**1.3**	1.4	**2.7**	2.7
Accretion on Series A Subordinate Notes	**1.6**	-	**3.2**	-
Loss (gain) on sale of property, plant and equipment	**(1.8)**	(3.3)	**(1.6)**	(3.8)
Future income tax expense (recovery)	**0.5**	(0.5)	**(8.3)**	(5.2)
Change in deferred distribution payable	**3.5**	-	**6.9**	-
Change in fair value of financial instruments held for trading	**13.6**	-	**11.6**	-
Other non-cash items	**-**	0.3	**0.2**	0.9
	(11.5)	(21.0)	**(23.1)**	(47.2)
Changes in non-cash working capital:				
Accounts receivable	**2.2**	(2.1)	**-**	(4.8)
Inventories	**9.6**	3.9	**7.5**	6.3
Prepaid expenses and other working capital	**(0.3)**	(0.2)	**0.4**	0.4
Accounts payable and accrued liabilities	**1.6**	5.7	**(4.1)**	9.9
	13.1	7.3	**3.8**	11.8
	1.6	(13.7)	**(19.3)**	(35.4)
Financing activities:				
Issuance of Stapled Units on exercise of options				
Series A Subordinate Notes	**-**	0.1	**-**	0.1
Share capital	**-**	-	**-**	-
	-	0.1	**-**	0.1
Convertible debentures	**-**	-	**150.0**	-
Revolving credit facilities	**(6.5)**	6.9	**(52.3)**	24.4
Term credit facilities	**-**	-	**(108.3)**	-
Financing transaction costs	**-**	-	**(3.5)**	-
	(6.5)	7.0	**(14.1)**	24.5
Investing activities:				
Proceeds from sale of property, plant and equipment	**5.9**	4.6	**6.1**	7.0
Additions to property, plant and equipment	**(0.1)**	(0.3)	**(0.4)**	(0.8)
Other assets	**(0.1)**	0.1	**(1.2)**	0.2
	5.7	4.4	**4.5**	6.4
Cash provided by (used in) continuing operations	**0.8**	(2.3)	**(28.9)**	(4.5)
Cash provided by (used in) discontinued operations (note 5)	**(0.3)**	2.2	**(0.9)**	3.3
Increase (decrease) in cash and cash equivalents	**0.5**	(0.1)	**(29.8)**	(1.2)
Cash and cash equivalents, beginning of period	**0.5**	0.1	**30.8**	1.2
Cash and cash equivalents, end of period	**$ 1.0**	-	**$ 1.0**	$ -
Supplemental information:				
Interest on Series A Subordinate Notes paid to unitholders	**$ -**	$ 21.0	**$ -**	$ 42.0
Interest on the convertible debentures paid	**$ 1.8**	$ -	**$ 1.8**	$ -
Other interest paid	**$ 2.1**	$ 2.5	**$ 6.2**	$ 5.1
Financing costs paid	**$ 0.1**	$ -	**$ 9.0**	$ -

See accompanying notes to the unaudited interim consolidated financial statements.

TIMBERWEST FOREST CORP.

CONSOLIDATED BUSINESS SEGMENTS

Unaudited (in millions of dollars)	Three months ended June 30, 2009			
	Timberlands	Real Estate	Other	Total
Sales	$ 31.3	$ 6.7	$ -	$ 38.0
Operating earnings (loss)	(2.3)	1.4	(3.7)	(4.6)
Total assets	977.2	266.2	14.6	1,258.0
Additions to property, plant and equipment	-	0.1	-	0.1

Unaudited (in millions of dollars)	Six months ended June 30, 2009			
	Timberlands	Real Estate	Other	Total
Sales	$ 61.5	$ 6.9	$ -	$ 68.4
Operating earnings (loss)	(1.5)	0.5	(6.7)	(7.7)
Total assets	977.2	266.2	14.6	1,258.0
Additions to property, plant and equipment	0.2	0.2	-	0.4

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. Prior to 2009, the Company operated in one operating segment, timberlands, and any real estate sales were incidental to the timberland operations. Effective January 1, 2009, the Company has formed a real estate division and the activities of this division are managed separately from the timberlands operation. 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 and six months ended June 30, 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, restructuring labour and contractor agreements, and reducing its working capital investment.

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 the potential for covenant breach and is taking proactive steps to remedy the situation.

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.

NOTES TO THE UNAUDITED INTERIM CONSOLIDATED FINANCIAL STATEMENTS (continued)

For the three and six months ended June 30, 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 June 30		**Six months ended June 30**	
	2009	2008	**2009**	2008
Sales	**$ -**	$ 22.4	**$ -**	$ 35.4
Loss before income taxes	**$ (0.1)**	$ (7.5)	**$ (0.2)**	$ (7.9)
Net loss	**$ (0.1)**	$ (7.5)	**$ (0.2)**	$ (7.9)

Sales from the logging operations to the sawmill operations have been recorded at fair value in accordance with the Company's internal policies. There were no inter-divisional sales for the three and six months ended June 30, 2009 (2008 - $4.4 million and $13.0 million).

NOTES TO THE UNAUDITED INTERIM CONSOLIDATED FINANCIAL STATEMENTS (continued)

For the three and six months ended June 30, 2009 and 2008

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

5. Discontinued operations (continued)

	Three months ended June 30		Six months ended June 30	
	2009	2008	**2009**	2008
Cash flow from operating activities	**$ (0.3)**	$ 2.1	**$ (0.9)**	$ 3.2
Cash flow from financing activities	**-**	-	**-**	-
Cash flow from investing activities	**-**	0.1	**-**	0.1
Cash provided by operations	**$ (0.3)**	$ 2.2	**$ (0.9)**	$ 3.3

6. Income taxes

	Three months ended June 30		Six months ended June 30	
	2009	2008	**2009**	2008
Current income tax	**$ -**	$ -	**$ -**	$ -
Future income tax expense (recovery)	**0.5**	(0.5)	**(8.3)**	(5.2)
	$ 0.5	$ (0.5)	**$ (8.3)**	$ (5.2)

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 $8.3 million and is included in the future income tax recovery for the six months ended June 30, 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 six months ended June 30, 2008.

NOTES TO THE UNAUDITED INTERIM CONSOLIDATED FINANCIAL STATEMENTS (continued)

For the three and six months ended June 30, 2009 and 2008

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

7. Earnings (loss) per share

	Three months ended June 30		Six months ended June 30	
	2009	2008	**2009**	2008
Net loss from continuing operations	**$ (30.2)**	$ (18.9)	**$ (37.8)**	$ (41.8)
Net loss	**(30.3)**	(26.4)	**(38.0)**	(49.7)
Basic weighted average number of common shares	**77,769,722**	77,754,160	**77,767,593**	77,752,764
Incremental common shares from potential exercise of options	**245,618**	31,421	**87,497**	34,027
Diluted weighted average number of common shares	**78,015,340**	77,785,581	**77,855,090**	77,786,791
Basic and diluted net loss from continuing operations per common share	**(0.39)**	(0.24)	**(0.49)**	(0.54)
Basic and diluted net loss from discontinued operations per common share	**-**	(0.10)	**-**	(0.10)
Basic and diluted net loss per common share	**(0.39)**	(0.34)	**(0.49)**	(0.64)

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

	June 30, 2009	December 31, 2008
Logs	**$ 21.6**	$ 29.1

The $7.5 million decrease in log inventory from December 31, 2008 is primarily due to lower inventory volumes at the end of June 30, 2009.

For the three months ended June 30, 2009, log inventory is lower as a result of reduced volumes. During the period, log inventory was written up by $0.8 million which was offset against cost of sales for the period (2008 - $1.5 million).

For the six months ended June 30, 2009, log inventory is lower as a result of reduced volumes. During the period, log inventory was written up by $0.3 million which was offset against cost of sales for the period (2008 – log inventories were written down by $0.3 million and expensed against cost of sales).

9. Property, plant and equipment

Property, plant and equipment at June 30, 2009, includes private lands with a carrying value of $1,167.9 million (December 31, 2008 - $1,170.9 million). This amount includes a valuation increase adjustment of $374.5 million 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 and six months ended June 30, 2009 and 2008

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

10. Other assets

	June 30, 2009	December 31, 2008
Deferred financing costs	$ 4.0	$ 1.4
Financial instruments	3.9	4.7
Other	0.9	1.0
	$ 8.8	$ 7.1

Financial instruments of $3.9 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 $3.3 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:

	June 30, 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%	$ 137.5	$ -
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	$ 137.5	$ 298.1
Less current portion	-	(108.3)
	$ 137.5	$ 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 and six months ended June 30, 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 proceeds of real estate sales and other items. At June 30, 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. For the three months ended June 30, 2009 the Company recorded interest expense of $3.4 million and paid the interest on July 15, 2009. For the six months ended June 30, 2009 the Company recorded interest expense of $5.1 million.

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 $0.1 million were incurred and expensed to the statement of operations in Q2, 2009 and transaction costs of $5.4 million were incurred and expensed to the statement of operations in Q1, 2009.

In Q2, 2009 debentures with a face value of $38,500 were converted into 11,134 Stapled Units.

NOTES TO THE UNAUDITED INTERIM CONSOLIDATED FINANCIAL STATEMENTS (continued)

For the three and six months ended June 30, 2009 and 2008

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

13. Employee future benefits

	June 30, 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 June 30, 2009, the Company recorded an expense of $0.4 million for pension benefit costs (2008 – $0.5 million) and made cash payments of $0.4 million to fund current service costs (2008 – $0.5 million). For the six months ended June 30, 2009, the Company recorded an expense of $0.8 million for pension benefit costs (2008 – $1.0 million) and made cash payments of $0.9 million to fund current service costs (2008 – $1.0 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, 2009, the Company recorded an expense of $0.7 million for non-pension benefit costs (2008 - $0.9 million) and made cash payments of $0.6 million to fund current benefit costs (2008 – $0.6 million). For the six months ended June 30, 2009, the Company recorded an expense of $1.3 million for non-pension benefit costs (2008 - $1.7 million) and made cash payments of $1.2 million to fund current benefit costs (2008 – $1.1 million).

14. Deferred distribution payable

	June 30, 2009	December 31, 2008
July 15, 2009 distribution (2%) with a face value of $3.5 million due by January 15, 2011	$ 3.1	$ -
April 15, 2009 distribution (2%) with a face value of $3.5 million due by October 15, 2010	3.2	-
January 15, 2009 distribution (12%) with a face value of $21.0 million due by April 15, 2011	18.5	17.8
	$ 24.8	$ 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 and six months ended June 30, 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	Preferred Shares	Common Shares	Issue Costs	Total Share Capital	Total Stapled Units
Six months ended June 30, 2008:							
Balance, December 31, 2007	77,750,143	$ 698.1	$ 190.1	$ 31.4	$ (30.5)	$ 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	$ 190.1	$ 31.4	$ (30.5)	$ 191.0	$ 889.2
Six months ended June 30, 2009:							
Balance, December 31, 2008	77,765,440	$ 240.4	$ 190.1	$ 31.4	$ (30.5)	$ 191.0	$ 431.4
Issuance of Stapled Units on conversion of debentures	**11,134**	**0.1**	**-**	**-**	**-**	**-**	**0.1**
Issuance of Stapled Units on exercise of options	**-**	**-**	**-**	**-**	**-**	**-**	**-**
Accretion on Series A Subordinate Notes	**-**	**3.2**	**-**	**-**	**-**	**-**	**3.2**
Conversion of preferred shares into common shares	**-**	**-**	**(190.1)**	**190.1**	**-**	**-**	**-**
Balance, June 30, 2009	**77,776,574**	**$ 243.7**	**$ -**	**$ 221.5**	**$ (30.5)**	**$ 191.0**	**$ 434.7**

The Company issues equity by way of Stapled Units, each Stapled Unit consisting of approximately $8.98 face amount of Series A Subordinate Notes 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 and six months ended June 30, 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. For the three and six months ending June 30, 2009, accretion recognized in the statement of operations was $1.6 million and $3.2 million respectively. For the three and six months ending June 30, 2009, interest accrued and payable to the holders of the Series A Subordinate Notes was $3.5 million and $6.9 million respectively, for total interest expense of $5.1 million and $10.1 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.

On May 7, 2009 the Company's preferred shares were converted into common shares and consolidated in order to simplify TimberWest's capital structure and eliminate administrative burdens and related expenses associated with maintaining the preferred shares. Each TimberWest Stapled Unit contains one Series A Subordinate Note and one common share. The conversion and consolidation was approved by the unitholders on May 6, 2009 and were approved by the Toronto Stock Exchange ("TSX").

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 June 30, 2009 the fair value of this option is $3.3 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 June 30, 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 and six months ended June 30, 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 June 30, 2009, no Stapled Unit options granted (Q2, 2008 – no Stapled Unit options were granted). For the six months ended June 30, 2009, there were 1,696,827 Stapled Unit options granted at an average exercise price of $3.00 (2008 – no Stapled Unit options were granted in the first six months of the year).

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 component 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 component 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 June 30, 2009, based on an intrinsic value method of accounting, for the three and six months ended June 30, 2009 was $0.3 million and $0.4 million respectively. A corresponding amount was expensed in the period with a corresponding credit to the Stapled Unit option plan liability (2008 – no Stapled Unit options were granted in the first six months of the year).

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 and six months ended June 30, 2009, no amount was accrued as no distributions were paid (2008 – $0.3 million and $0.6 million, respectively). For the three and six months ended June 30, 2009, nil and $0.1 million, respectively has been amortized against earnings (2008 – $0.3 million and $0.6 million, respectively).

NOTES TO THE UNAUDITED INTERIM CONSOLIDATED FINANCIAL STATEMENTS (continued)

For the three and six months ended June 30, 2009 and 2008
(Unaudited and in millions of dollars, except per common share amounts)

16. Stapled Unit option plan (continued)

During the three months ended June 30, 2009, no Stapled Unit options were exercised, no Stapled Unit options were cancelled, and 24,023 Stapled Unit options with an average exercise price of $16.65 expired (2008 – 12,577 Stapled Unit options with an average exercise price of $12.21 were exercised and 8,178 Stapled Unit options with an average price of $15.88 were cancelled).

During the six months ended June 30, 2009, no Stapled Unit options were exercised, 47,500 Stapled Unit options with an average exercise price of $12.72 were cancelled, and 223,103 Stapled Unit options with an average exercise price of $13.08 expired (2008 – 15,297 Stapled Unit options with an average exercise price of $12.15 were exercised and 9,678 Stapled Unit options with an average price of $15.94 were cancelled).

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 $0.1 million and $5.5 million were incurred and expensed to the statement of operations in the period three and six months ending June 30, 2009, respectively.

18. Contingencies and commitments

During Q2, 2009 the City of Campbell River increased its tax rate on Class 7 managed forest lands. TimberWest filed a petition with the B.C. Supreme Court on June 9, 2009 to challenge this tax increase and a court hearing date is scheduled for early September. TimberWest has paid the full assessed taxes. In Q2, 2009 the Company expensed $626,849 in relation to the tax increase with the remaining capitalized on the Consolidated Balance Sheets which will be expensed over the remainder of the year. Any recovery based on the decision from the Courts would be recorded as a property tax recovery on the Consolidated Statements of Operations and Comprehensive Income at that time.

19. 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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