



THIRD QUARTER INTERIM REPORT

For the three months ended September 30, 2001

TimberWest Forest Corp.

TIMBERWEST FOREST CORP.

To our unitholders

Dear fellow unitholders:

I am pleased to report that TimberWest has delivered third quarter results consistent with those of Q3 2000, generating distributable cash of \$14.1 million, or \$0.22 per weighted average Stapled Unit. These are strong results recognizing that all markets TimberWest sells into have experienced significant price declines. Average sales realizations for logs were down 11% in Q3 2001 compared to the equivalent prior year period, despite a sales mix that had a heavier Douglas fir component. The logging division largely offset the impact of lower prices on distributable cash with reduced costs and higher sales volumes in the quarter. Our ability to stay exactly on pace with results generated in the same period last year is a testament to the talent and persistence of our marketing staff, who are able to develop new markets and sell more logs internationally when the domestic market is poor, and to our operating personnel, who are able to produce what the market is demanding at lower cost. It is worth noting that, for the first time ever, TimberWest sold a higher volume of export logs into the US West Coast market than it did into Japan in Q3 of this year.

The third quarter is always our most difficult because, on the revenue side, we shift our harvesting to lower value stands that are predominantly hemlock with higher costs associated with them. But challenging market conditions this quarter – including the continued recession in Japan, the impact of the 19.3% countervail duty on softwood lumber into the US, and the fact that the coastal sawmilling industry in BC was operating at 50% to 60% of capacity in the quarter – made this particular quarter an even bigger challenge.

While the fourth quarter is expected to be as challenging as the third, we expect to keep pace with previous fourth quarters. There may be some improvement in demand for certain items in Japan in the fourth quarter but we do not expect any significant improvement in prices. In the US, lumber prices were already declining before the tragic events of September 11th, which created uncertainty over future pricing as well as volumes. In response, mills have been reducing their log inventories and forward purchasing. In conjunction with an adequate level of supply from the domestic US industry, this makes for an extremely difficult market for us. In addition, it is expected that the US will impose an anti-dumping charge on Canadian softwood lumber, which is likely to further erode the domestic market. The coastal BC market is not expected to improve in Q4. A continued emphasis on reducing costs and maximizing export sales will be prevalent in Q4. While TimberWest filed a Statement of Claim in the Federal Court of Canada on July 31, 2001 to have federal restrictions on the export of private land logs removed, we remain hopeful that the restrictions will be removed as part of the softwood lumber solution with the US.

We continue to work with the BC government and other BC forest companies to achieve a market-based stumpage system, tenure reform and policy change. While no meaningful reforms are expected before the New Year, we are hopeful comprehensive change will lead to a more competitive industry and pave the way for free trade with the US.

Our safety performance in the quarter was strong. In the Coast Timberlands Group, we had a Medical Incidence Rate (MIR) of 7.71, which brings our year-to-date performance to 8.33. This compares very favourably to last year at this time when we had a MIR of 17.17. In the Lumber Group, Stuart Channel Wharves has a zero MIR year-to-date, while Elk Falls Lumbermill is at 3.22, well ahead of last year's performance. I congratulate our crews and safety teams for their dedication and the ownership they've taken of the safety program.

Another area of excellence for us is in the environmental field. As part of TimberWest's ongoing commitment to independent third party certification of our forest practices, the first periodic assessment of the SFIsm verification of our private forest lands was successfully completed in September by KPMG Quality Registrar Inc. The annual surveillance audits for ISO 14001 were also completed this quarter and all TimberWest operations have met certification requirements.

I am pleased with the addition of Robert Murdoch to our Board of Directors effective September 1, 2001. He brings a wealth of senior executive and board-level experience to TimberWest. Robert was President and CEO of Lafarge USA and Canada. He is currently a director of Lafarge France, Sierra Systems Group Inc., Usinor Sacilor, and two private companies.

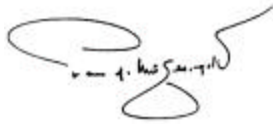
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TIMBERWEST FOREST CORP.

Don McMullan, TimberWest's Vice-President and Chief Forester, announced his retirement plans in January of this year. Don will be leaving the Company as planned at the end of October 2001 after 37 years of service to TimberWest and its predecessor companies. More recently, Erik Bentsen, our Senior Vice-President, Coast Timberlands, has announced his plans to retire. Erik has 33 years of service with the Company and will continue in his position until his successor takes office, making for a smooth and orderly transition. I'm happy for both Don and Erik, that they are moving on to a new phase in their lives, but know they will be greatly missed by their friends and colleagues at TimberWest. They have each made very significant contributions to the Company and on behalf of all employees, the board, and unitholders, I want to thank them for their dedication, commitment, and outstanding results.

Thank you for your continued support of TimberWest.

On behalf of the Board of Directors



Paul J. McElligott
President and Chief Executive Officer

Vancouver, British Columbia
October 15, 2001



TIMBERWEST FOREST CORP.

Management's Discussion and Analysis

For the three and nine months ended September 30, 2001

The Management's Discussion and Analysis supplements, but does not form part of, the unaudited interim consolidated financial statements of TimberWest Forest Corp. ("TimberWest") and the notes thereto for the third quarter of 2001. This discussion and analysis provides an overview of significant developments that have impacted TimberWest's performance during the third quarter and year-to-date of 2001 relative to the third quarter and year-to-date of 2000, and that have impacted the Company's financial position as at September 30, 2001 relative to December 31, 2000. Factors that could impact future operations are also discussed. These factors may be impacted 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 2000 Annual Report.

Quarterly Financial Highlights

TimberWest generated distributable cash of \$14.1 million, or \$0.22 per weighted average Stapled Unit for the quarter ended September 30, 2001 compared to distributable cash of \$14.1 million, or \$0.22 per weighted average Stapled Unit for the same period in 2000, mainly due to lower capital expenditures and increased charges for depreciation, depletion and amortization. Earnings available for distribution for the quarter, before provision for future income taxes, were \$9.7 million, or \$0.15 per weighted average Stapled Unit compared to \$12.8 million, or \$0.20 per weighted average Stapled Unit for the same quarter in 2000. Net sales for the third quarter were \$105.4 million, 9% lower than net sales of \$116.4 million reported for the same period in 2000. Operating earnings were \$17.0 million for the third quarter of 2001 compared to \$19.6 million for the same quarter in 2000. EBITDA for the quarter ended September 30, 2001 was \$20.8 million, or \$0.32 per weighted average Stapled Unit compared to \$22.9 million, or \$0.35 per weighted average Stapled Unit for the same period in 2000.

Year-to-Date Financial Highlights

For the nine month period ended September 30, 2001, TimberWest generated distributable cash of \$66.7 million, or basic distributable cash of \$1.03 per weighted average Stapled Unit and diluted distributable cash of \$1.02 per weighted average Stapled Unit. For the comparable period in 2000, the Company generated distributable cash of \$70.7 million, or basic and diluted distributable cash of \$1.05 per weighted average Stapled Unit.

Earnings available for distribution, before provision for future income taxes, were \$51.0 million, or \$0.79 per weighted average Stapled Unit in the first nine months of fiscal 2001, compared to \$54.2 million, or \$0.81 per weighted average Stapled Unit for the same period in 2000. Net sales in the first three quarters of the 2001 fiscal year were \$346.3 million, down 5% from net sales of \$363.7 in the prior year. Year-to-date operating earnings for 2001 were \$71.4 million compared to \$75.5 million for the first nine months in 2000. EBITDA for the nine months ended September 30, 2001 was \$82.7 million, or \$1.27 per weighted average Stapled Unit compared to \$85.7 million, or \$1.27 per weighted average Stapled Unit for the same period in 2000.

Cash Distributions

On October 15, 2001, TimberWest announced a distribution of \$0.269 per Stapled Unit, payable January 15, 2002 to Unitholders of record on January 1, 2002. On a year-to-date basis, TimberWest has declared cash distributions of \$52.5 million or \$0.807 per Stapled Unit and, including the distribution paid on October 15, 2001, TimberWest has distributed cash of \$70.0 million or \$1.08 per Stapled Unit to unitholders in 2001. Due to the seasonal and cyclical nature of TimberWest's business, cash flows may fluctuate from quarter to quarter and from year to year. One of the objectives of TimberWest's cash distribution policy is to make even distributions to Unitholders, which may differ from actual cash generated during the period.



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Operating Highlights

Log sales for the three months ended September 30, 2001 were \$87.7 million, down slightly from log sales of \$91.4 million for the quarter ended September 30, 2000. Adverse market conditions, including weak prices in the domestic log market and continued price weakness in the Japanese market, were a major factor in the decrease in sales over the prior year. Log sales volumes increased by 8% over the comparative period in 2000, with log shipments for the three months ended September 30, 2001 of 835.3 mm³ compared to 773.9 mm³ for the third quarter of 2000. The combination of weak market pricing and end use sort mix resulted in average realizations on log sales of \$105 per m³ for the third quarter of 2001, down from average realizations of \$118 per m³ for the comparative quarter in 2000.

The impact of lower log sales realizations for the third quarter of 2001 relative to the comparative period of 2000 was partially mitigated by an improvement in TimberWest's logging cost of sales. Logging production volume for the quarter increased by 131.8 mm³ over that for the comparative quarter in 2000 to 948.7 mm³, and unit logging cost of sales fell to \$80.16 per m³ from \$85.54 per m³ for the comparative quarter in 2000. This decrease can be attributed to a combination of the timing of logging activities, lower production costs, increased log purchases, and a reduction in the average cost of log purchases due to low market prices.

Log sales for the nine months ended September 30, 2001 were \$278.0 million compared to \$267.3 million for the comparative period in 2000, an improvement of 4%. This increase in year-to-date log sales is primarily the result of a 7% increase in log shipments in the current year, including a 69% increase in the volume of sales to the US West Coast and an 11% increase in the volume of offshore export sales. The benefit of increased export sales volumes was partially offset by weaker market prices, both domestic and export, compared to the prior year. Average realizations on domestic sales in the first nine months of 2001 dropped to \$94.19 per m³, down from an average of \$99.95 per m³ for the comparative period in 2000. Average premiums on export sales fell to \$45.31 per m³ from \$53.48 per m³ for the comparative period in the prior year.

Lumber sales were \$13.5 million for the quarter ended September 30, 2001, down from \$19.7 million for the same period in 2000. This decrease is reflective of adverse market conditions and the closure of the Cowichan Lake lumbermill earlier in the year and the removal of this facility's production from the lumber sales mix for 2001. These factors contributed to a 25% decrease in the volume of lumber sold in the third quarter of 2001 over the comparative period in 2000. Market weakness is evidenced by a 9% decrease in realizations on lumber sales, falling to \$493 per mfbm for the quarter ended September 30, 2001 from \$540 per mfbm for the corresponding quarter of 2000.

Lumber sales for the nine months ended September 30, 2001 were also impacted by the closure of the Cowichan Lake lumbermill and market price volatility, dropping to \$49.0 million compared to \$76.1 million for the same period in 2000. Lumber shipments for the first nine months of 2001 were 104.8 million board feet, down 24% over the comparative period in the prior year. Lumber sales realizations for the nine month period ended September 30, 2001 averaged \$467 per mfbm, down 15% from sales realizations of \$548 per mfbm for the corresponding period in 2000, further contributing to the decline in lumber sales.

Financial Position

Working capital, excluding changes in the operating loan, increased by \$10.5 million during the quarter ended September 30, 2001, and increased by \$33.1 million during the nine month period ended September 30, 2001. These increases can be attributed to increased log inventory, an increase in accounts receivable and a decrease in accounts payable and accrued liabilities over these periods.

Capital assets as at September 30, 2001 were \$2.2 million lower than at June 30, 2001, and \$13.3 million lower than at December 31, 2000. These reductions are the result of provisions for depreciation, depletion and amortization and the sale of capital assets, partially offset by capital expenditures made during these periods.

As at September 30, 2001, TimberWest's consolidated debt was \$397.9 million, consisting of \$72.9 million drawn on its Revolving Credit Facility, \$200.0 million drawn on its Non-revolving Credit Facility and \$125.0 million of debentures. In



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the second quarter of 2001 the Company accepted a committed offer for unsecured long-term financing in the amount of \$325.0 million. The offer was underwritten by two Canadian banks and consisted of two facilities, a \$125.0 million Revolving Facility and a \$200.0 million Non-revolving Facility. The facilities closed on July 10, 2001 and funded on July 12, 2001. As the Revolving Facility is due on June 30, 2004 and the Non-revolving Facility is due on December 31, 2002 both amounts have been reflected as long-term debt on the balance sheet at the end of the current quarter. The Company's consolidated debt-equity ratio of 33:67 as at September 30, 2001 increased marginally from 32:68 as at December 31, 2000. Total debt facilities available to the Company as at September 30, 2001 were \$460.0 million.

Options to purchase 71,666 Stapled Units were exercised during the third quarter of 2001 for proceeds of \$0.6 million. Year-to-date, options to purchase 221,666 Stapled Units have been exercised for proceeds of \$1.9 million, contributing to an increase in unitholder's equity for the nine month period ended September 30, 2001.

Cash Flow and Liquidity

Net cash generated from operations for the three months ended September 30, 2001, before changes in working capital, was \$14.3 million or \$0.22 per Stapled Unit compared to \$15.5 million or \$0.24 per weighted average Stapled Unit for the corresponding quarter in 2000. On a year-to-date basis, cash generated from operations, before changes in working capital, was \$61.7 million, compared to \$66.3 for the same period in 2000. Non-cash working capital increased by \$10.5 million during the third quarter of 2001 compared to a \$10.1 million decrease during the same period in 2000. Year-to-date, non-cash working capital increased by \$33.1 million, compared to an increase of \$0.1 million in 2000. These increases in non-cash working capital reflect accounts receivable and inventory balances that are above seasonal levels due to soft market conditions, and a decrease in accounts payable and accrued liabilities balances due to operational curtailments during the recent quarter.

Net cash used for financing activities was \$3.1 million in the third quarter of 2001, a decrease of \$20.2 million from the same quarter in 2000. On a year-to-date basis, net cash used in financing activities was \$32.2 million for 2001, \$32.2 million less than cash used in financing activities for the same period in 2000. In 2001, the exercise of options to purchase Stapled Units provided funds of \$0.6 million in the third quarter and funds of \$1.9 million year-to-date. In 2000, 4.8 million Stapled Units were repurchased by the Company pursuant to a substantial issuer bid for an outlay of \$52.4 million. The changes in net cash from financing activities also reflect an increase in the Company's consolidated debt during the third quarter of 2001 by \$18.3 million, and an increase of \$22.8 million since December 31, 2000. This increase in debt has largely been to finance the increase in non-cash working capital. As noted previously, the Company closed new long-term financing during the quarter and drew on the new credit facilities to repay its Operating Loan of \$52.8 million and its Term Loan of \$201.8 million.

Fees of \$4.5 million were paid in connection with the long-term debt refinancing and have been deferred and will be amortized against income over the life of the new credit facilities. The third quarter distribution paid to Stapled Unit unitholders was the same as that paid in the prior year, amounting to \$17.5 million, or \$0.269 per Stapled Unit. Year-to-date distributions paid in 2001 of \$52.4 million are slightly less than the \$55.0 million paid in 2000 due to fewer Stapled Units outstanding during 2001.

Net cash used in investing activities was \$0.7 million in the third quarter of 2001, a decrease of \$1.6 million over the same quarter in 2000. On a year-to-date basis, net cash provided by investing activities was \$3.6 million for 2001, \$5.4 million more than cash used in investing activities during the same period in 2000. Capital expenditures for the quarter ended September 30, 2001 of \$2.3 million and year-to-date of \$4.5 million were lower than capital expenditures for the corresponding periods in 2000. Current year capital expenditures relate primarily to road building activities and lumbermill improvements. Proceeds from the sale of capital assets were \$1.8 million for the three month period ended September 30, 2001 and \$10.3 million year-to-date.



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Final Results from Normal Course Issuer Bid

Pursuant to a normal course issuer bid that expired at midnight on July 6, 2001, TimberWest was in a position to repurchase up to 3,241,267 Stapled Units of the issued and outstanding Stapled Units of the Company through the facilities of the Toronto Stock Exchange. TimberWest did not repurchase any of its Stapled Units through this instrument.

Outlook

TimberWest has had a good third quarter in spite of weakening Japanese, US and domestic lumber markets. As the Company looks toward year-end, we expect to keep pace with previous fourth quarters. Economic reports indicate that the Japanese economic weakness will persist, however, housing starts and lumber demand are stable and some price improvement is possible in the back half of the fourth quarter, which will help both domestic and export sales. In the US, even with the economic weakness and recent uncertainty caused by events of September 11th and the softwood lumber negotiations, the housing industry remains strong, with housing starts continuing at a SAAR of 1.6 million. However, this market continues to be oversupplied and will remain so until year-end. TimberWest is used to managing through difficult markets and again in the fourth quarter our sales, marketing and production team will continue to use TimberWest's inherent private timberland cost and species advantages to deliver consistent results.

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, actions of competitors, interest rate and foreign currency fluctuations, regulatory and harvesting fee changes and other actions by governmental authorities, the ability to implement business strategies and pursue business opportunities, weather conditions, forest fires and other natural phenomena and other risks and uncertainties described in TimberWest's public filings with securities regulatory authorities.

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Consolidated Statements of Distributable Cash (in millions of dollars, except per Stapled Unit amounts) Unaudited

For the three months ended
September 30

For the nine months ended
September 30

	2001	2000	2001	2000
Net earnings for the period	\$ 19.9	\$ 7.2	\$ 43.1	\$ 86.1
Income tax benefit related to distributions	7.8	5.0	23.4	18.7
Earnings available for distribution	27.7	12.2	66.5	104.8
Future income tax (recovery) expense	(18.0)	0.6	(15.5)	(50.6)
Earnings available for distribution before provision for future income tax (recovery) expense	9.7	12.8	51.0	54.2
Add (deduct):				
Depreciation, depletion and amortization	4.6	3.5	12.3	12.9
Proceeds from sale of real estate and other assets	1.8	2.6	10.0	11.4
Gain on sale of real estate and other assets	(0.3)	(0.5)	(2.0)	(1.7)
Capital expenditures	(2.3)	(4.5)	(4.5)	(7.2)
Other non-cash items	0.6	0.2	(0.1)	1.1
	4.4	1.3	15.7	16.5
Distributable cash	\$ 14.1	\$ 14.1	\$ 66.7	\$ 70.7
<i>Basic distributable cash per weighted average Stapled Unit</i>	\$ 0.22	\$ 0.22	\$ 1.03	\$ 1.05
<i>Diluted distributable cash per weighted average Stapled Unit</i>	\$ 0.22	\$ 0.22	\$ 1.02	\$ 1.05
<i>Cash distributions declared per Stapled Unit</i>	\$ 0.27	\$ 0.27	\$ 0.81	\$ 0.81
<i>Stapled Units outstanding at the end of the period (000's)</i>	65,047	64,825	65,047	64,825

Quarterly Comparison of Distributable Cash

	2001	2000	1999	1998
Distributable Cash (in millions of dollars)				
First	\$ 25.9	\$ 28.4	\$ 24.5	\$ 13.2
Second	26.7	28.2	25.1	24.0
Third	14.1	14.1	14.0	11.5
Fourth	-	18.5	19.7	19.6
	\$ 66.7	\$ 89.2	\$ 83.3	\$ 68.3
Distributable Cash per Stapled Unit (in dollars)				
First	\$ 0.40	\$ 0.41	\$ 0.36	\$ 0.19
Second	0.41	0.42	0.36	0.34
Third	0.22	0.22	0.20	0.17
Fourth	-	0.29	0.28	0.28
	\$ 1.03	\$ 1.34	\$ 1.20	\$ 0.98

See accompanying notes to unaudited interim consolidated financial statements.

TIMBERWEST FOREST CORP.

Consolidated Balance Sheets (in millions of dollars)

As at
September 30, 2001
(Unaudited)

As at
December 31, 2000

Assets

Current assets:

Accounts receivable	\$ 32.6	\$ 26.5
Inventories	71.0	55.2
Prepaid expenses and other current assets	4.5	0.8
Future income taxes	3.5	3.5
	<u>111.6</u>	<u>86.0</u>
Capital assets, net	1,371.0	1,384.3
Other assets	39.2	35.0
	<u>\$ 1,521.8</u>	<u>\$ 1,505.3</u>

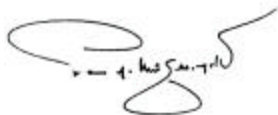
Liabilities and Unitholders' Equity

Current liabilities:

Operating loan	\$ -	\$ 48.3
Bank term loan	-	201.8
Accounts payable and accrued liabilities	41.4	48.9
Distribution payable	17.5	17.5
	<u>58.9</u>	<u>316.5</u>
Long-term bank debt (Note 3)	272.9	-
Debentures	125.0	125.0
Long-term silviculture liability	4.4	4.3
Non-pension post-retirement benefits	22.8	22.2
Future income taxes	234.1	249.6
	<u>718.1</u>	<u>717.6</u>
Unitholders' equity		
Stapled Units, consisting of Series A Subordinated	733.3	731.4
Notes, preferred shares and common shares	70.4	56.3
Retained earnings	803.7	787.7
	<u>\$ 1,521.8</u>	<u>\$ 1,505.3</u>

See accompanying notes to unaudited interim consolidated financial statements.

On behalf of the Board of Directors:



Paul J. McElligott
Director



V. Edward Daughney
Director

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Consolidated Statements of Cash Flows
(in millions of dollars)
Unaudited

For the three months ended
September 30

For the nine months ended
September 30

	2001	2000	2001	2000
Cash provided by (used in):				
Operating activities:				
Earnings before income taxes	\$ 10.1	\$ 12.7	\$ 52.3	\$ 54.9
Cash income taxes	(0.4)	0.1	(1.3)	(0.7)
	<u>9.7</u>	<u>12.8</u>	<u>51.0</u>	<u>54.2</u>
Items not involving cash:				
Depreciation, depletion and amortization	4.6	3.5	12.3	12.9
Gain on sale of capital assets	(0.4)	(0.5)	(2.4)	(1.8)
Other non-cash items	0.4	(0.3)	0.8	1.0
	<u>14.3</u>	<u>15.5</u>	<u>61.7</u>	<u>66.3</u>
Changes in non-cash working capital:				
Accounts receivable	(0.5)	3.6	(6.1)	-
Inventories	(2.3)	7.4	(15.8)	(4.6)
Prepaid expenses and other	(0.3)	(2.8)	(3.7)	(1.9)
Accounts payable and accrued liabilities	(7.4)	1.9	(7.5)	6.4
	<u>3.8</u>	<u>25.6</u>	<u>28.6</u>	<u>66.2</u>
Financing activities:				
Issuance of Stapled Units	0.6	-	1.9	-
Repurchase of Stapled Units	-	-	-	(52.4)
Increase in revolving credit facility	72.9	-	72.9	-
Increase in non-revolving credit facility	200.0	-	200.0	-
(Repayment of) increase in operating loan, net	(52.8)	(5.8)	(48.3)	43.0
Repayment of term loan	(201.8)	-	(201.8)	-
Deferred debt issue costs	(4.5)	-	(4.5)	-
Distributions paid to unitholders	(17.5)	(17.5)	(52.4)	(55.0)
	<u>(3.1)</u>	<u>(23.3)</u>	<u>(32.2)</u>	<u>(64.4)</u>
Investing activities:				
Additions to capital assets	(2.3)	(4.5)	(4.5)	(7.2)
Proceeds from sale of capital assets	1.8	2.5	10.3	7.8
Increase in other assets	(0.2)	(0.3)	(2.2)	(2.4)
	<u>(0.7)</u>	<u>(2.3)</u>	<u>3.6</u>	<u>(1.8)</u>
Increase in cash	-	-	-	-
Cash, beginning of period	-	-	-	-
Cash, end of period	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>
Supplemental information :				
Interest paid	\$ 8.9	\$ 7.0	\$ 20.5	\$ 19.2
Income taxes paid	\$ 0.2	\$ 0.7	\$ 1.0	\$ 3.0

See accompanying notes to unaudited interim consolidated financial statements.

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Consolidated Statements of Operations <i>(in millions of dollars, except per common share amounts)</i> Unaudited	For the three months ended September 30		For the nine months ended September 30	
	2001	2000	2001	2000
	Net sales	\$ 105.4	\$ 116.4	\$ 346.3
Operating costs and expenses:				
Cost of products sold	81.9	91.1	252.7	267.9
Depreciation, depletion and amortization	3.6	2.7	10.6	10.3
Selling, administrative and other	2.9	3.0	11.6	10.0
	<u>88.4</u>	<u>96.8</u>	<u>274.9</u>	<u>288.2</u>
Operating earnings	17.0	19.6	71.4	75.5
Interest expense	6.1	6.7	18.1	17.9
Amortization of debt issue costs	1.0	0.8	1.7	2.6
Other (income) expense	(0.2)	(0.6)	(0.7)	0.1
	<u>6.9</u>	<u>6.9</u>	<u>19.1</u>	<u>20.6</u>
Earnings before income taxes	10.1	12.7	52.3	54.9
Income tax expense (recovery) (Note 4)	(9.8)	5.5	9.2	(31.2)
Net earnings for the period	\$ <u>19.9</u>	\$ <u>7.2</u>	\$ <u>43.1</u>	\$ <u>86.1</u>
<i>Net earnings per common share (Note 5)</i>				
<i>Basic earnings (loss) per common share</i>	\$ <u>0.16</u>	\$ <u>(0.08)</u>	\$ <u>0.22</u>	\$ <u>0.76</u>
<i>Diluted earnings (loss) per common share</i>	\$ <u>0.15</u>	\$ <u>(0.08)</u>	\$ <u>0.22</u>	\$ <u>0.76</u>

Consolidated Statements of Unitholders' Equity

<i>(in millions of dollars)</i> Unaudited	Stapled Units		Retained earnings (distributions in excess of earnings)	Total unitholders' equity
	Number	Amount		
For the nine months ended September 30, 2001				
Balance December 31, 2000	64,825,336	\$ 731.4	\$ 56.3	\$ 787.7
Issuance of Stapled Units	221,666	1.9	-	1.9
Net earnings	-	-	43.1	43.1
Interest on Series A Subordinated Notes	-	-	(52.4)	(52.4)
Income tax benefit thereon	-	-	23.4	23.4
Balance, September 30, 2001	<u>65,047,002</u>	<u>\$ 733.3</u>	<u>\$ 70.4</u>	<u>\$ 803.7</u>
For the nine months ended September 30, 2000				
Balance December 31, 1999	69,608,360	\$ 783.2	\$ (109.3)	\$ 673.9
Repurchase of Stapled Units	(4,783,024)	(52.4)	-	(52.4)
Net earnings	-	-	86.1	86.1
Interest on Series A Subordinated Notes	-	-	(53.5)	(53.5)
Income tax benefit thereon	-	-	18.7	18.7
Balance, September 30, 2000	<u>64,825,336</u>	<u>\$ 730.8</u>	<u>\$ (58.0)</u>	<u>\$ 672.8</u>

See accompanying notes to unaudited interim consolidated financial statements.

TIMBERWEST FOREST CORP.

Notes to Unaudited Interim Consolidated Financial Statements

For the three months ended September 30, 2001

1. Significant Accounting Policies

These unaudited interim consolidated financial statements include the accounts of TimberWest Forest Corp. and its subsidiaries. Not all disclosures required by Canadian generally accepted accounting principles for annual financial statements are presented, and accordingly, these interim financial statements should be read in conjunction with the Company's most recent annual consolidated financial statements. These interim financial statements follow the same accounting policies and methods of application used in the Company's audited annual consolidated financial statements of December 31, 2000, except for those standards which have changed subsequent to that date, as detailed below. Certain figures for previous periods have been reclassified to conform with the current period's financial statement presentation.

2. Accounting Policy Change

Effective January 1, 2001, the Company adopted the recommendations of the Canadian Institute of Chartered Accountants ("CICA") relating to new CICA handbook Section 3500 on earnings per share. This new standard is mandatory for fiscal years beginning on or after January 1, 2001, and is to be given retroactive application. Under the new standard, the treasury stock method is used instead of the imputed earnings approach for determining the dilutive effect of options issued. In addition, the Section requires that earnings per common share be disclosed on the face of the income statement and that a reconciliation of the numerator and denominator for both basic and diluted earnings per share computations be disclosed (see Note 5).

3. Long-Term Bank Debt

In the second quarter of 2001, the Company completed and received long-term financing in the amount of \$325.0 million pursuant to unsecured credit facilities consisting of: (i) a \$125.0 million Revolving Facility due on June 30, 2004, and (ii) a \$200.0 million Non-revolving Facility due on December 31, 2002. The Company repaid outstanding balances on its Operating Loan of \$52.8 million and its Term Loan of \$201.8 million on the funding of the new financing early in the third quarter.

Under these facilities, funds are available to the Company in both Canadian and US dollars by way of adjusted prime rate-based loans, bankers acceptances, US base rate-based loans, LIBOR loans and letters of credit or guarantees. The credit facilities have been co-underwritten by two Canadian chartered banks.

At September 30, 2001, drawings on the available credit facilities were \$72.9 million under the Revolving Facility and \$200.0 million under the Non-revolving Facility.

4. Income Taxes

Income tax expense (recovery) consists of:

<i>(in millions of dollars)</i>	For the three months ended September 30		For the nine months ended September 30	
	2001	2000	2001	2000
Current:				
Large corporation tax	\$ 0.4	\$ (0.1)	\$ 1.3	\$ 0.7
Income tax benefit on interest on Series A Subordinated Notes charged directly to distributions	7.8	5.0	23.4	18.7
	<u>8.2</u>	<u>4.9</u>	<u>24.7</u>	<u>19.4</u>
Future	(18.0)	0.6	(15.5)	(50.6)
	<u>\$ (9.8)</u>	<u>\$ 5.5</u>	<u>\$ 9.2</u>	<u>\$ (31.2)</u>

TIMBERWEST FOREST CORP.

4. Income Taxes (continued)

On July 30, 2001, the provincial government of British Columbia announced that it was lowering the provincial corporate tax rate by 3%. Under Section 3465 of the CICA Handbook, future tax assets and liabilities are adjusted to reflect the effects of enacted or substantively enacted changes in tax rates. The effect of this change in tax rates is credited to income as part of future income tax recovery in the period in which the changes are substantively enacted. The tax rate change has resulted in a non-cash future income tax recovery of \$19.2 million for the three month and nine month periods ended September 30, 2001 and a corresponding decrease in the future income tax liability as at September 30, 2001.

5. Earnings Per Stapled Unit and Components Thereof

<i>(in millions of dollars, except per Stapled Unit amounts)</i>	For the three months ended September 30		For the nine months ended September 30	
	2001	2000	2001	2000
Net Earnings:				
Net earnings	\$ 19.9	\$ 7.2	\$ 43.1	\$ 86.1
Less: Distributions on Series A Subordinated Notes	(17.5)	(17.5)	(52.4)	(53.5)
Tax benefit thereon	7.8	5.0	23.4	18.7
	<u>(9.7)</u>	<u>(12.5)</u>	<u>(29.0)</u>	<u>(34.8)</u>
Earnings (loss) attributable to common shares	10.2	(5.3)	14.1	51.3
– re: basic and diluted earnings available for distribution				
Earnings attributable to Series A Subordinated Notes	17.5	17.5	52.4	53.5
– re: basic and diluted earnings available for distribution				
Earnings attributable to Stapled Units	\$ 27.7	\$ 12.2	\$ 66.5	\$ 104.8
– re: basic and diluted earnings available for distribution				
	<u><u>27.7</u></u>	<u><u>12.2</u></u>	<u><u>66.5</u></u>	<u><u>104.8</u></u>
Weighted Average Number of Stapled Units:				
Basic number of Stapled Units	65,013,839	64,825,33	64,967,432	67,269,217
Incremental Stapled Units from potential exercise of stock options	202,902	141,460	172,664	79,993
Diluted number of Stapled Units	<u><u>65,216,741</u></u>	<u><u>64,966,79</u></u>	<u><u>65,140,096</u></u>	<u><u>67,349,210</u></u>
Per Stapled Unit Amounts:				
Basic earnings (loss) per common share	\$ 0.16	\$ (0.08)	\$ 0.22	\$ 0.76
Basic earnings per Series A Subordinated Note	0.27	0.27	0.80	0.80
Basic earnings per Stapled Unit	<u><u>\$ 0.43</u></u>	<u><u>\$ 0.19</u></u>	<u><u>\$ 1.02</u></u>	<u><u>\$ 1.56</u></u>
Diluted earnings (loss) per common share	\$ 0.15	\$ (0.08)	\$ 0.22	\$ 0.76
Diluted earnings per Series A Subordinated Note	0.27	0.27	0.80	0.80
Diluted earnings per Stapled Unit	<u><u>\$ 0.42</u></u>	<u><u>\$ 0.19</u></u>	<u><u>\$ 1.02</u></u>	<u><u>\$ 1.56</u></u>

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



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6. Share Capital – Stapled Unit Options

The Company has a Stapled Unit Option Plan for directors, officers and selected employees of the Company. During the quarter ended September 30, 2001, 71,666 Stapled Unit options issued under the Plan with an exercise price of \$8.91 were exercised. During the nine months ended September 30, 2001, 150,000 Stapled Unit options were issued, at an exercise price of \$10.71 per Stapled Unit and exercisable until January 31, 2011, and a total of 221,666 Stapled Unit options with an exercise price of \$8.91 were exercised.

7. Financial Instruments

The Company realizes a significant portion of its sales in foreign currencies, principally US dollars, and enters into various types of foreign exchange instruments in managing its foreign exchange risk. At September 30, 2001, the Company had entered into forward exchange contracts to sell an aggregate of US\$13.0 million at an average rate of 1.5468 expiring at various dates through February 2002, and Canadian dollar call options totaling US\$18.0 million with an average strike price of 1.5206 expiring at various dates through March 2002. At September 30, 2001 the forward exchange contracts had an unrecognized mark-to-market loss of \$0.4 million and the call options had an unrecognized mark-to-market value of \$0.1 million. These amounts will offset foreign exchange gains (losses) on US dollar revenues in the contract period.

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TIMBERWEST FOREST CORP.

Supplemental Information <i>(in millions of dollars)</i> <i>Unaudited</i>	For the three months ended September 30		For the nine months ended September 30	
	2001	2000	2001	2000
Sales by Product				
Logs	\$ 87.7	\$ 91.4	\$ 278.0	\$ 267.3
Lumber	13.5	19.7	49.0	76.1
Wood Chips and Other	2.4	3.1	9.3	12.5
Real Estate	1.8	2.2	10.0	7.8
	<u>\$ 105.4</u>	<u>\$ 116.4</u>	<u>\$ 346.3</u>	<u>\$ 363.7</u>
Sales Volume				
Logs (<i>thousand m³</i>)	<u>835.3</u>	<u>773.9</u>	<u>2,463.4</u>	<u>2,293.9</u>
Lumber (<i>million fbm</i>)	<u>27.4</u>	<u>36.5</u>	<u>104.8</u>	<u>138.8</u>
Production Volume				
Logs (<i>thousand m³</i>)	<u>948.7</u>	<u>816.9</u>	<u>2,829.3</u>	<u>2,751.2</u>
Lumber (<i>million fbm</i>)	<u>15.7</u>	<u>28.7</u>	<u>85.7</u>	<u>133.5</u>

