



TIMBERWEST FOREST CORP.

FIRST QUARTER INTERIM REPORT
FOR THE THREE MONTHS ENDED MARCH 31, 2010

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TIMBERWEST FOREST CORP.

TO OUR UNITHOLDERS

Overview

Our first quarter results for 2010 show improvement in distributable cash over the same quarter last year and the fourth quarter of 2009. With log prices in all Asian markets improving through the quarter, we were able to ship higher volumes into those markets. Q1, 2010 log sales revenue was \$49.4 million, up from \$29.3 million in the same quarter last year, and showing steady improvement over the fourth quarter of 2009 when log sales revenue was \$40.1 million. As indicated at the end of the fourth quarter, we anticipated real estate sales to be weak for Q1 and in fact only generated revenue of \$1.0 million. However, subsequent to quarter end we generated an additional \$6.8 million of real estate sales at approximately \$3,000/acre.

EBITDA for the quarter was positive at \$3.4 million, compared to an EBITDA loss for the first quarter of 2009 of \$2.4 million. The Company generated negative distributable cash of \$2.9 million in Q1, 2010 compared to negative \$15.3 million, or negative \$6.4 million after adjusting for the financing costs in the first quarter of 2009. Excluding \$3.5 million of interest on the convertible debentures that the Company paid in kind for the first quarter, distributable cash was positive \$0.6 million. In spite of the fact that we are paying the interest on the convertible debentures in kind, we have decided to maintain consistency with our definition of distributable cash and continue to deduct all of our interest obligations from our distributable cash calculation. EBITDA and distributable cash improved due to higher log sales volumes and improvements in production costs, which declined \$6/m³ due to higher volumes logged at competitive contract rates.

Equity Offering

On April 27, 2010 the Company announced its intention to raise additional equity through a stapled unit bought deal offering. The public offering is 12,000,000 Stapled Units at a price of \$5.00 per Stapled Unit for gross proceeds of \$60 million plus a 15% over allotment option. The offering is scheduled to close on May 18, 2010.

In conjunction with this offering, the Company has amended its credit agreement to allow for the payment of interest on the convertible debentures to be made in cash and it is our intention to begin paying in cash on July 15, 2010. The new equity will enable us to reduce our revolving credit facility, giving us an estimated \$110 million of liquidity upon closing, and enable us to pay the convertible debenture interest in cash, instead of continuing the current level of dilution by paying these in kind. Continuing to pay the convertible debenture interest in kind resulted in considerable dilution with the conversion price of the debentures at \$3.50 per Stapled Unit.

The lack of visibility on a recovery in US housing, the uncertain timing of non-core land sales and the resulting uncertainty in our near term earnings prospects continue to cause us concern. Therefore we believe taking this opportunity to bolster our liquidity is a prudent course of action.

Safety

TimberWest had a BC Forest Safety Council SAFE Re-Certification audit during the first quarter and achieved an overall score of 96%. This achievement is a strong reflection of the safety culture at TimberWest. The successful completion of this audit has renewed our SAFE certification status for another three year period. Our 2010 score of 96% compares favourably to our 2007 score of 94%.

During the quarter there were three reportable incidents, generating a Medical Incident Rate (MIR) of 0.51 for production contractors. This compares to two reportable incidents and an MIR of 0.64 for the first quarter of 2009.

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Timberlands

Over the past few years, the Company has been indicating that there would be opportunities created in Asian log markets as a result of declining export volumes from Russia due, in part, to escalating Russian log export taxes. The 2010 first quarter results confirm the optimism that the Company had for these markets. Due to reduced supply from Russia, volumes and prices in US dollars increased significantly.

Log sales revenue of \$49.4 million in Q1, 2010 was dominated by Asia where we generated \$31.7 million. Strong markets in Japan, China and Korea all contributed to our sales success this quarter. Sales into the US continue to be weak and only totaled \$0.6 million for the quarter. Total sales volumes for the quarter totaled 683,600 m³, with 370,700 m³ shipped to Asia. This more than doubles our Asian sales volumes over Q1 2009. Sales to Korea and China were at a record pace with both of those economies showing considerable growth in the quarter. Sales to Korea were 76,400 m³ and sales to China were 69,600 m³. For all of 2009, we sold 103,600 m³ to Korea and 106,400 m³ to China. We are anticipating selling record volumes to both of those markets this year and finding alternative markets to the US is a priority for us at this time. Wood based housing in Japan has begun to recover slowly and is anticipated to be up about 7.5% by the end of this year.

While volumes were higher, sales realizations were down compared to the first quarter of 2009, primarily as a result of currency and a significant change in species mix compared to the same quarter in 2009. This quarter we focused more on hemlock markets in Korea and China and in spite of a 17% increase in the value of the Canadian dollar against the US dollar, we achieved an average sales realization of \$86 per m³ for our sales to Asia. Average sales realizations for the quarter for all markets were \$72 per m³ with production costs of \$62 per m³ compared to sales realizations of \$77 per m³ and production costs of \$68 per m³ for the same period last year. As a result timberland margins improved from 3% in Q1 2009 to 11% in Q1 2010, an 8% improvement in costs over the same quarter in 2009. Lower costs are a result of higher volume over fixed costs, lower road construction spending as well as competitive contract rates on our public and private land operations, resulting in higher margins compared to the first quarter of 2009. The savings from the sub-division of our harvesting and road building contracts are more apparent at these volume levels.

ISO 14001 and SFI environmental certifications require TimberWest to undertake an annual internal audit. This year's audit was completed during the first quarter. Due to the high number of contractors new to TimberWest's public and private land operations, this internal audit was the most complete undertaken in our history. The Timberlands portion included auditor visits to 18 contractors, 33 audit points and interviews with 82 crew members. The Audit findings identified a total of nine minor non conformances, all easily remedied.

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Couverdon

As indicated last quarter, we did not anticipate sales activity picking up until the second quarter, and so far in Q2 we have closed \$6.8 million in sales. We also have work underway on a number of other conditional offers at this time. While the real estate market has picked up on Vancouver Island, the large acreage lot market, which is what all of our product at the moment represents, is a relatively small market. As a result, sales in this market are challenging to predict.

We continue to work on planning and rezoning at many locations across our portfolio and are pleased with the progress we are making. The more significant work on our core development land will take a number of years to successfully complete. In the meantime we will continue to deliver large acreage lots and non-core land sales to the market.

Carbon Sequestration Proposal to Pacific Carbon Trust and Other Initiatives

TimberWest engaged Carbon Credit Corp. to develop a carbon credit proposal which was submitted to the Pacific Carbon Trust (PCT) at the end of the first quarter. PCT is a provincial Crown corporation established in 2008 to deliver BC-based greenhouse gas offsets to help clients meet their carbon reduction goals and to support the growth of BC's low-carbon economy. Our project is specific to the conservation of old growth timber on TimberWest's private timberlands.

Due to the rapidly evolving nature of carbon offset protocol development in BC, BC currently does not have an approved forest conservation protocol and consequently the project will be developed with the intent of being compliant with two separate protocols. The first, the Voluntary Carbon Standard (VCS) is an existing protocol which allows projects to be sold on the voluntary market. The second, Climate Action Reserve (CAR) is a protocol developed for California which PCT is considering for adaptation for use in BC. PCT has indicated it will accept projects developed under protocols from other jurisdictions as long as they can be adapted to comply with BC regulatory requirements. We anticipate being able to share the results of this with you later in the year.

Pre-feasibility studies on wind and run-of-river power projects on our land base are expected to be completed in Q2 and Q3, 2010, respectively. Finally, during the quarter we initiated a three month pilot project involving detailed measurements of the volume of bio-mass remaining at road side post harvest. As part of this, we are evaluating the productivity and costs of two options for the conversion of road side debris into bio-mass materials suitable for either power generation or wood pellet production.

Other First Quarter 2010 Updates

Finally, on behalf of the Board and management, I would like to thank Conrad Pinette who retires from our Board today, for his contributions to TimberWest. Conrad's depth of forest industry knowledge and vast business experience have been very valuable to us all. We will miss him at the Board table and wish him all the very best in the future.

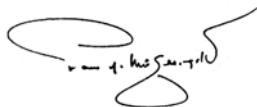
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Outlook

While we anticipate continued strength in our Asian log markets for the balance of the year, a return to meaningful profitability for our company relies on a recovery in US housing starts. Forecasts are predicting a steady although gradual improvement in US housing starts over the next two to three years before we reach sustainable levels. As a result, we are continuing our deferred harvest strategy and expect to harvest less than our long term economic harvest level until the US market recovers further. As noted in previous communications, an attractive feature of this asset class is the trees that are not harvested during the downturn continue to increase in size and value as they are left to grow on the stump. Reducing harvest levels now preserves unitholder value for when better days return, as they no doubt will.

Once supply and demand are in balance, TimberWest will be well-positioned geographically to benefit as we expect our markets will continue to be BC, US, Japan, China and Korea. In addition to supply restrictions in Russia, we have frequently referred to the BC interior mountain pine beetle epidemic in previous unitholder materials. A report issued by the International Wood Market Group during Q1, 2010 concluded that the volume of sawlogs available to BC interior sawmills will decline by 33% from the peak year of 2006 and, as a result, we will likely witness the permanent closure of an additional 16 timber processing facilities during this decade and we expect to see the impact on North American log prices by the middle of the decade. As this region has traditionally represented 18% of US lumber supply, TimberWest continues to be optimistic about the impact of this supply dislocation on our mid and longer term log pricing in North America.

On behalf of the Board of Directors,



Paul McElligott
President and Chief Executive Officer
Vancouver, British Columbia
May 5, 2010

TIMBERWEST FOREST CORP.

MANAGEMENT'S DISCUSSION & ANALYSIS

For the three months ended March 31, 2010 and 2009

Management's Discussion and Analysis supplements, but does not form part of, the unaudited interim consolidated financial statements of TimberWest Forest Corp. ("TimberWest" or "the Company") and the notes thereto for the first quarter of 2010 ("first quarter" or "Q1"). This discussion and analysis provides an overview of significant developments that have affected TimberWest's performance during the first quarter of 2010 relative to the first quarter of 2009, and that have affected the Company's financial position as at March 31, 2010, relative to December 31, 2009.

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 2009 Annual Report.

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

This Management's Discussion and Analysis has been prepared based on information available as at May 5, 2010.

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.

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1. Financial Highlights

Selected financial information

(in millions of dollars except where otherwise noted)	Three months ended	
	March 31	
	2010	2009
Sales	\$ 58.7	\$ 30.4
Operating earnings (loss) from continuing operations	2.0	(3.1)
Operating earnings (loss) from continuing operations - % of sales	3.4%	(10.2)%
Net loss from continuing operations	(24.7)	(7.6)
Net loss from continuing operations excluding unusual items ¹	(6.7)	(12.8)
Net loss	(24.7)	(7.7)
Net loss excluding unusual items ¹	(6.7)	(12.9)
EBITDA from continuing operations ²	3.4	(2.3)
EBITDA ²	3.4	(2.4)
Distributable cash from continuing operations ²	(2.9)	(15.2)
Distributable cash ²	(2.9)	(15.3)
Per Stapled Units – basic and diluted (in dollars)		
Net loss from continuing operations	(0.32)	(0.10)
Net loss from continuing operations excluding unusual items ¹	(0.09)	(0.17)
EBITDA from continuing operations ²	0.04	(0.03)
EBITDA ¹	0.04	(0.03)
Distributable cash from continuing operations ²	(0.04)	(0.20)
Distributable cash ²	(0.04)	(0.20)
Timberlands sales	57.7	30.2
Real estate sales	1.0	0.2
Stapled Units (thousands)		
At period-end	77,938	77,765
Basic weighted average	77,795	77,765
Diluted weighted average	78,386	77,766

1 Net loss from continuing operations excluding unusual items and net loss excluding unusual items are non-GAAP measures. Unusual items are defined as the following, net of their associated income tax impact: (i) gain on modification of Series A Subordinate Notes; (ii) accretion expense on the Series A Subordinate Notes; and (iii) change in fair value of financial instruments held for trading. These unusual items, net of their income tax impact, are quantified in the following table:

(in millions of dollars)	2010	2009
Accretion expense on Series A Subordinate Notes	\$ (1.6)	\$ (1.6)
Change in fair value of financial instruments held for trading	(16.7)	2.0
Total unusual items	(18.3)	0.4
Income tax recognized on unusual items	0.3	4.8
Total unusual items, net of income tax	\$ (18.0)	\$ 5.2
Total unusual items per common share – basic and diluted (in dollars)	\$ (0.23)	\$ 0.07

2 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. The Company’s calculation of EBITDA is provided on page 7 and distributable cash on page 8 of this report.

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Sales increased \$28.3 million or 93% in the first quarter of 2010 compared to Q1, 2009. The increase is primarily due to an increase in log sales volumes.

Reconciliation of net loss from continuing operations to EBITDA

(in millions of dollars)	Three months ended	
	March 31	
	2010	2009
Net loss from continuing operations	\$ (24.7)	\$ (7.6)
Add (deduct):		
Interest on Series A Subordinate Notes owned by unitholders	3.7	3.4
Interest on convertible debentures	3.5	1.7
Interest on long-term bank debt	2.6	2.1
Interest on short-term bank debt	-	0.5
Income tax recovery	(2.5)	(8.8)
Depreciation, depletion and amortization	1.1	0.9
Amortization of deferred financing costs	1.0	0.5
Change in fair value of financial instruments held for trading	16.7	(2.0)
Change in fair value of Stapled Unit option plan	0.4	-
Financing transaction costs	-	5.4
Accretion on Series A Subordinate Notes	1.6	1.6
EBITDA from continuing operations ¹	3.4	(2.3)
EBITDA from discontinued operations ^{1,2}	-	(0.1)
EBITDA ¹	\$ 3.4	\$ (2.4)

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.

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2. Distributable Cash

Reconciliation of net loss from continuing operations to distributable cash

(in millions of dollars)	Three months ended	
	March 31 2010	2009
Net loss from continuing operations	\$ (24.7)	\$ (7.6)
Interest on Series A Subordinate Notes owned by unitholders	3.7	3.4
Loss from continuing operations available for distribution	(21.0)	(4.2)
Accretion on Series A Subordinate Notes	1.6	1.6
Change in fair value of financial instruments held for trading	16.7	(2.0)
Future Income tax recovery	(2.0)	(8.8)
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	(4.7)	(13.4)
Add (deduct):		
Depreciation, depletion and amortization	2.1	1.4
Proceeds from sale of real estate ²	-	0.2
Loss (gain) on sale of real estate ²	-	0.2
Proceeds from sale of property, plant & equipment	-	-
Loss (gain) on sale of property, plant and equipment	-	-
Additions to property, plant and equipment	(0.5)	(0.3)
Financing transaction costs	-	(3.5)
Other non-cash items	0.2	0.2
Distributable cash from continuing operations	(2.9)	(15.2)
Distributable cash from discontinued operations ¹	-	(0.1)
Distributable cash	\$ (2.9)	\$ (15.3)

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

2 In Q1, 2010, real estate revenue is comprised of miscellaneous revenues.

Calculation of distributable cash per Stapled Unit

Per Stapled Units – basic and diluted (in dollars)	Three months ended	
	March 31 2010	2009
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	\$ (0.06)	\$ (0.17)
Distributable cash from continuing operations	(0.04)	(0.20)
Distributable cash from discontinued operations ¹	-	-
Distributable cash	(0.04)	(0.20)
Cash distributions paid	\$ -	\$ -

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

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Reconciliation of operating cash flow from operations to distributable cash

(in millions of dollars)	Three months ended	
	March 31	
	2010	2009
Cash provided by (used in) continuing operations	\$ 0.3	\$ (20.8)
Add (deduct):		
Change in non-cash working capital	1.2	9.3
Interest on Series A Subordinate Notes owned by unitholders	3.7	3.4
Proceeds from sale of property, plant and equipment	-	0.2
Additions to property, plant and equipment	(0.5)	(0.3)
Financing transaction costs	-	(3.5)
Change in deferred distribution payable	(3.6)	(3.4)
Convertible debenture interest paid in kind	(3.5)	-
Other non-cash items	(0.5)	(0.1)
	(3.2)	5.6
Distributable cash from continuing operations	(2.9)	(15.2)
Distributable cash from discontinued operations ¹	-	(0.1)
Distributable cash	\$ (2.9)	\$ (15.3)

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 items including income taxes, changes in fair values and accretion expense, 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 over the past five years, in total and on a per Stapled Unit basis:

	2010	2009	2008	2007	2006	2005
(in millions of dollars)						
First quarter	\$ (2.9)	\$ (15.3)	\$ (3.9)	\$ 26.9	\$ 31.5	\$ 23.9
Second quarter		(5.4)	(3.2)	13.6	35.5	15.4
Third quarter		(3.8)	(6.3)	(5.6)	9.3	(1.7)
Fourth quarter		(10.2)	(11.4)	55.4	27.5	29.7
	\$ (2.9)	\$ (34.7)	\$ (24.8)	\$ 90.3	\$ 103.8	\$ 67.3
Per Stapled Unit ¹ (in dollars)						
First quarter	\$ (0.04)	\$ (0.20)	\$ (0.05)	\$ 0.35	\$ 0.41	\$ 0.31
Second quarter		(0.07)	(0.04)	0.17	0.46	0.20
Third quarter		(0.05)	(0.08)	(0.07)	0.12	(0.02)
Fourth quarter		(0.13)	(0.15)	0.71	0.35	0.38
	\$ (0.04)	\$ (0.45)	\$ (0.32)	\$ 1.16	\$ 1.34	\$ 0.87

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.

TIMBERWEST FOREST CORP.**3. Highlights and Significant Transactions****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, payable at 2%, were deferred for 18 months. The Company has set the variable interest rate at 2% for 2010 and intends to defer cash distribution payments for the foreseeable future. As deferred distributions become payable, the Company intends to make payment in kind by the issuance of additional Stapled Units. The first deferred distribution becomes payable on October 15, 2010.

During 2010, the Company will review the current Stapled Unit structure to determine its relevance for the business for the long term.

Interest payment on the convertible debentures

The Company made cash interest payments up to July 15, 2009, and commenced paying interest on the convertible debentures in kind starting with the October 15, 2009 interest payment. As a result, convertible debentures with a face value of \$3.5 million were issued on January 15, 2010. Interest on the convertible debentures accrued and payable at March 31, 2010 was paid by issuing additional convertible debentures with a face value of \$3.5 million on April 15, 2010. The face value of the convertible debentures is \$156.8 million at March 31, 2010 on which interest accrues at 9%.

The Company intends to make cash interest payments on the convertible debentures commencing in July as it expects to close an equity issue totaling gross proceeds of \$60.0 million on May 18, 2010. At the Annual General Meeting on May 5, 2010, the Company will seek approval from unitholders to make future interest payments in kind by the issuance of additional convertible debentures should this be necessary again in the future.

Property taxes

During 2009 the City of Campbell River increased its property 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 was held in September. TimberWest paid the full assessed taxes of \$1.2 million. On December 31, 2009, the British Columbia Supreme Court ruled in the Company's favour and declared the tax was unlawfully levied by the City of Campbell River. The Company received a refund of over \$1.0 million in January 2010 and received the remainder in April 2010. The Company awaits the resetting of the 2009 property tax rate on Class 7 managed forests by the City of Campbell River.

Subsequent event

On April 27, 2010 the Company announced its intention to raise additional equity through a stapled unit bought deal offering. The public offering is 12,000,000 Stapled Units at a price of \$5.00 per Stapled Unit for gross proceeds of \$60 million plus a 15% over allotment option. The offering is scheduled to close on May 18, 2010.

In conjunction with this offering, the Company has amended its credit agreement to allow for the payment of interest on the convertible debentures to be made in cash and the Company intends to begin paying in cash on July 15, 2010. The proceeds will enable the Company to reduce the revolving credit facility, resulting in an estimated \$110 million of liquidity upon closing, and the Company will pay the convertible debenture interest in cash, instead of continuing the current level of dilution by paying these in kind.

The lack of visibility on a recovery in US housing, the uncertain timing of non-core land sales and the resulting uncertainty in the Company's near term earnings prospects continue to cause the Company concern. Therefore the Company believes that taking this opportunity to strengthen the balance sheet is a prudent course of action.

TIMBERWEST FOREST CORP.**4. Operating Highlights****Timberlands**

	Three months ended March 31	
	2010	2009
Log sales (in millions of dollars)		
Domestic	\$ 17.1	\$ 12.6
Export – Asia	31.7	14.4
Export – USA	0.6	2.3
Total log sales	\$ 49.4	\$ 29.3
Log sales realizations (\$/m ³)		
Domestic	\$ 57	\$ 57
Export – Asia	86	107
Export – USA	62	83
Total log sales realizations	\$ 72	\$ 77
Log sales volume (thousand m ³)		
Domestic	302.6	219.9
Export – Asia	370.7	134.6
Export – USA	10.3	27.8
Total log sales volume	683.6	382.3
Log sales mix (thousand m ³)		
Fir	396.3	248.2
Hembal	227.8	75.4
Cedar	28.8	26.7
Other	30.7	32.0
Total log sales mix	683.6	382.3
Log production volume (thousand m ³)		
Public tenures	168.7	13.5
Private timberlands	415.5	298.2
Total production volume	584.2	311.7
Log production costs (\$/m ³)	\$ 62	\$ 68
Timberland cost of sales (\$/m ³)	64	73
Timberland operating margin (% of log sales)	11%	3%

Log sales revenues for the three months ended March 31, 2010 increased by 69% from the same quarter last year due to a 79% increase in the sales volumes offset by a \$5 per m³ decrease in average log sales realizations. Log sales revenue of \$49.4 million in Q1, 2010 was dominated by Asia which generated \$31.7 million. Strong markets in Japan, China and Korea all contributed to sales success this quarter. Sales into the US continue to be weak and only totaled \$0.6 million for the quarter. Sales volumes for the quarter totaled 683,600 m³, with 370,700 m³ shipped to Asia. This more than doubles Asian sales volumes over Q1 2009. Sales to Korea and China were at a record pace with both of those economies showing considerable growth in the quarter. Sales to Korea were 76,400 m³ and sales to China were 69,600 m³. For all of 2009, sales volumes were 103,600 m³ to Korea and 106,400 m³ to China. The Company anticipates selling record volumes to both of those markets this year and finding alternative markets to the US is a priority at this time. Wood based housing in Japan has begun to recover slowly and is anticipated to grow moderately this year.

Timberland sales include other sales of \$8.3 million in Q1 2010, compared to \$0.9 million in Q1 2009. These sales in Q1, 2010 include \$6.7 million of shipping services to Asian customers which include ocean freight and ship

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loading as a result of vessels TimberWest chartered to ship to Asian markets (Q1, 2009 - nil). These other sales are offset by ocean freight and ship loading costs reported in cost of sales and result in no margin.

While volumes were higher, sales realizations were down compared to the first quarter of 2009, primarily as a result of currency and a significant change in species mix compared to the same quarter in 2009. This quarter the focus was more on hemlock markets in Korea and China and in spite of a 17% increase in the value of the Canadian dollar against the US dollar, the average sales realization was \$86 per m³ for sales to Asia. Average sales realizations for the quarter were \$72 per m³ with production costs of \$62 per m³ versus \$68 per m³ in the first quarter of 2009. Lower costs are a result of higher volume over fixed costs as well as competitive contract rates on public and private land operations, resulting in higher margins compared to the first quarter of 2009.

The operating margin for Q1, 2010 was 11% compared to 3% in Q1, 2009.

Real estate

(in millions of dollars except where otherwise noted)	Three months ended	
	March 31	
	2010	2009
Sales	\$ 1.0	\$ 0.2
Price per acre (\$/acre)	-	4,452

The Company's real estate division, Couverdon, sells non-core landholdings, pursues entitlements and markets properties.

During Q1, 2010, costs of \$0.4 million were deferred related to entitlement and planning activities (Q1, 2009 - \$0.2 million).

Real estate sales generally vary from year to year and quarter to quarter reflecting the variable nature and timing of real estate sales activity.

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5. Financial condition

The following table highlights the significant changes between the consolidated balance sheets as at March 31, 2010 and December 31, 2009:

(in millions of dollars)	March 31, 2010	December 31, 2009	Increase / (decrease)	
Cash and cash equivalents	\$ 4.0	\$ 1.8	\$ 2.2	The increase in cash is primarily the result of timing of cash receipts at period end. Refer to section 6 "Liquidity and capital resources" for greater detail.
Current assets, excluding cash and cash equivalents	41.5	37.6	3.9	The increase is due to a \$2.1 million increase in log inventory and a \$1.3 million increase in accounts receivable.
Property, plant and equipment	1,212.4	1,213.0	(0.6)	The decrease is due to depreciation of \$1.1 million recorded in the period offset by additions during the period primarily relating to deferred costs associated with entitlement and planning activities.
Other assets	10.3	12.0	(1.7)	The decrease in other assets is due to the amortization of the capitalized financing costs associated with the restructuring of the Company's credit facilities in 2009 and a decrease in the fair value of the Company's financial instruments.
Current liabilities	33.8	27.2	6.6	The increase is due an increase in accounts payable and accrued liabilities of \$3.2 million and an increase of \$3.4 million in the current portion of the deferred distribution payable as a result of a reclassification from long term to current.
Revolving credit facilities	154.6	152.6	2.0	The increase is offset by the increase in cash on hand at March 31, 2010.
Convertible debentures	226.8	207.8	19.0	The increase is due to an increase in the fair value of the convertible debentures and the issuance of convertible debentures in Q1 2010 as a result of paying the \$3.5 million (face value) January 15, 2010 interest payment in kind. Refer to the note 11 in the notes to the unaudited interim consolidated financial statements. The face value of the convertible debentures is \$156.8 million at March 31, 2010.
Other long-term liabilities	240.2	241.5	(1.3)	The decrease is primarily due to a reduction in the future income tax liability.
Series A Subordinate Notes owned by unitholders	249.5	247.1	2.4	The increase is due to the recognition of accretion and Stapled Units issued during the period.
Unitholders' Equity	\$ 363.3	\$ 388.0	\$ (24.7)	The decrease is due to the net loss for the period.

TIMBERWEST FOREST CORP.**6. Liquidity and capital resources****Selected financial information**

(in millions of dollars except where otherwise noted)	Three months ended	
	March 31	
	2010	2009
Cash provided by (used in):		
Operating activities from continuing operations	\$ 0.3	\$ (20.8)
Financing activities	2.5	(7.6)
Investing activities	(0.6)	(1.3)
Cash used in discontinued operations	-	(0.6)
Increase (decrease) in cash and cash equivalents	\$ 2.2	\$ (30.3)
Consolidated debt-to-total capitalization ratio ¹	16:84	15:85

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. In the last two years, the Company took steps to improve its competitiveness by, decreasing the number of employees to 81 at the end of 2009, restructuring its contractor arrangements, paying interest on the convertible debentures in kind, changing to a variable interest rate on the Series A Subordinate Notes and deferring interest payments on these notes for the foreseeable future.

Operating

Cash provided by continuing operating activities for Q1, 2010 was \$0.3 million, compared to cash used of \$20.8 million in Q1, 2009. No distributions were paid to unitholders in Q1, 2010 or Q1, 2009. The increase over the prior period is due to improved net earnings before non-cash expenses and due to changes in non-cash working capital.

Financing Activities

Cash provided by financing activities was \$2.5 million for Q1, 2010, compared to \$7.6 million used in financing activities for Q1, 2009.

During Q1, 2010, the Company increased its borrowings on its credit facilities by \$2.0 million and received proceeds from the exercise of 148,181 Stapled Unit options of \$0.5 million. As at May 5, 2010 the Company had 77,937,937 issued and outstanding Stapled Units and 2,958,227 granted and outstanding Stapled Unit option awards.

The Company has the option to pay the interest on the convertible debentures in kind in order to preserve liquidity. Additional convertible debentures with a face value of \$3.5 million were issued by the Company to the holders of the convertible debentures as payment in kind for the January 15, 2010 interest payment. On April 15, 2010 the Company issued additional convertible debentures with a face value of \$3.5 million to the holders of the convertible debentures as payment in kind of interest. No interest was paid in cash on the convertible debentures during Q1, 2010. As at May 5, 2010 the Company had convertible debentures with a face value of \$160.3 million outstanding.

In Q1, 2009, the Company issued convertible debentures for cash proceeds of \$150.0 million, 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. During Q1, 2009 the Company also completed a new three-year secured revolving credit refinancing arrangement with its syndicate of banks which resulted in the Company having access to \$220 million in this credit facility. No Stapled Unit options were exercised in Q1, 2009 and as a result no Stapled Units were issued.

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In Q1, 2009 transaction costs associated with the refinancing were \$8.9 million; \$5.4 million was expensed against income as it relates to the convertible debentures, which have been designated as held for trading and \$3.5 million was deferred and capitalized on the balance sheet as these costs relate to debt refinancing held at amortized cost.

Cash and cash equivalents at the end of Q1, 2010 were \$4.0 million compared to \$1.8 million at December 31, 2009. The Company's consolidated debt-to-total capitalization ratio as at March 31, 2010 was 16:84 compared to 15:85 at December 31, 2009.

Investing Activities

Cash in investing activities was \$0.6 million for Q1, 2010, compared to cash used of \$1.3 million in Q1, 2009. The decrease in cash used of \$0.7 million was primarily due to a reduction in spending on other assets in Q1, 2010 compared to Q1, 2009.

Capital resources

The Company's capital resources at March 31, 2010 include amounts available under the revolving credit facility and the convertible debentures. Credit ratings for the Company have been confirmed by Dominion Bond Rating service at BBB in 2009.

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

(in millions of dollars)	2010 Q1	2009 Q4	2009 Q3	2009 Q2	2009 Q1
Borrowing base					
Revolving credit facility (due February 11, 2012)	\$ 220.0	\$ 220.0	\$ 250.0	\$ 250.0	\$ 250.0
Convertible debentures, at face value (due February 11, 2014)	156.8	153.4	150.0	150.0	150.0
Total borrowing base	376.8	373.4	400.0	400.0	400.0
Letters of credit	16.4	16.4	16.4	16.4	16.6
Amount drawn, net	311.4	306.0	293.0	287.5	294.0
Available to be drawn	49.0	51.0	90.6	96.1	89.4
Cash on hand	4.0	1.8	1.1	1.0	0.5
Total liquidity	\$ 53.0	\$ 52.8	\$ 91.7	\$ 97.1	\$ 89.9

As of March 31, 2010, the Company had \$53.0 million of available liquidity, comprised of \$4.0 million of cash on hand and \$49.0 million available to be drawn on its \$220.0 million revolving credit facility. Compared to December 31, 2009 the Company's total liquidity increased by \$0.2 million, primarily due to improved timberland operating earnings.

Debt

At March 31, 2010, the total debt calculated for financial reporting purposes was \$381.4 million. The following table outlines the changes in the Company's long-term debt for the quarter ended March 31, 2010:

Issue (in millions of dollars)	December 31, 2009	Net increase (decrease)	March 31, 2010
Secured revolving credit facility of up to \$230.0 ² million due February 11, 2012 with interest based on Canadian or U.S. Prime rates + 5%, or Canadian BA rates + 6%	\$ 152.6	\$ 2.0	\$ 154.6
Convertible debentures with a face value of \$156.8 million due February 11, 2014	207.8	19.0 ¹	226.8
Total long-term debt	\$ 360.4	\$ 21.0	\$ 381.4

1 The convertible debentures are designated as "held-for-trading" for accounting purposes and as such are valued at fair value. The increase in Q1, 2010 over Q4, 2009 is the result of a fair value adjustment of \$14.5 million, convertible debentures issued as payment in kind with a fair value of \$4.6 million, and offset by conversions with a fair value of \$0.1 million.

2 The secured, revolving facility will increase from \$220.0 million to \$230.0 million beginning January 1, 2011 provided certain EBITDA levels are achieved, otherwise it will remain at \$220.0 million of available capacity.

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Refer to the Company's unaudited interim consolidated financial statements for the three months ended March 31, 2010, Note 10 for details related to covenant compliance. The Company is in compliance with its covenants.

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.

7. Summary of Quarterly Information

The following table presents selected unaudited quarterly financial information for each of the Company's last eight quarters. This data has been derived from the unaudited interim consolidated financial statements that have been prepared on the same basis as the 2009 annual audited consolidated financial statements. In the Company's opinion, the amounts include all normal recurring adjustments necessary for the fair presentation of such information. These financial results are not necessarily indicative of results for any future period and should not be relied upon to predict future performance.

The Company operates in a cyclical industry and it also experiences some seasonal fluctuations in quarterly results due to weather-related factors having an effect on harvesting operations. Earnings in the second half of the year generally trend lower as the result of fire season shutdowns and increased costs of harvesting at higher elevations.

Unaudited (in millions of dollars except where otherwise noted)	2010 Q1	Q4	2009 Q3	Q2	Q1	2008 Q4	Q3	Q2
Sales	\$ 58.7	\$ 44.4	\$ 37.5	\$ 38.0	\$ 30.4	\$ 35.9	\$ 38.8	\$ 57.0
Operating earnings (loss) from continuing operations	2.0	(3.1)	(2.2)	(4.6)	(3.1)	(8.6)	(6.4)	4.1
Net earnings (loss) from continuing operations	(24.7)	8.3	(25.9)	(30.2)	(7.6)	312.3 ²	(29.8)	(18.9)
Net earnings (loss) from discontinued operations	-	(0.1)	(0.1)	(0.1)	(0.1)	2.3	0.2	(7.5)
Net earnings (loss)	(24.7)	8.2	(26.0)	(30.3)	(7.7)	314.6	(29.6)	(26.4)
Earnings (loss) from continuing operations available for distribution ¹	(21.0)	12.0	(22.3)	(26.7)	(4.2)	330.1	(8.8)	2.1
Earnings (loss) from continuing operations available for distribution before accretion, changes in fair value of financial instruments held for trading, gain on modification of Series A Subordinate Notes and provision for future income tax expense (recovery) ¹	(4.7)	(9.6)	(8.3)	(11.0)	(13.4)	(11.2)	(9.4)	1.6
Distributable cash from continuing operations ¹	(2.9)	(10.1)	(3.7)	(5.3)	(15.2)	(11.4)	(6.5)	4.3
Distributable cash from discontinued operations ¹	-	(0.1)	(0.1)	(0.1)	(0.1)	-	0.2	(7.5)
Distributable cash ¹	(2.9)	(10.2)	(3.8)	(5.4)	(15.3)	(11.4)	(6.3)	(3.2)
Distributions paid	\$ -	\$ -	\$ -	\$ -	\$ -	\$ 21.0	\$ 21.0	\$ 21.0

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

2 The net earnings from continuing operations for Q4, 2008 includes a gain on the modification of the Series A Subordinate Notes of \$342.0 million, net of income taxes. Excluding this gain, the net loss from continuing operations is \$29.7 million.

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Unaudited (in millions of dollars except per common share and per Stapled Unit amounts)	2010	2009			2008			
	Q1	Q4	Q4	Q2	Q1	Q4	Q3	Q2
Per common share¹ – basic								
Net earnings (loss) from continuing operations	\$ (0.32)	\$ 0.11	\$ (0.33)	\$ (0.39)	\$ (0.10)	\$ 4.02	\$ (0.38)	\$ (0.24)
Net earnings (loss) from discontinued operations	-	(0.01)	-	-	-	0.03	-	(0.10)
Net earnings (loss)	(0.32)	0.10	(0.33)	(0.39)	(0.10)	4.05	(0.38)	(0.34)
Per common share¹ – diluted								
Net earnings (loss) from continuing operations	\$ (0.32)	\$ 0.07	\$ (0.33)	\$ (0.39)	\$ (0.10)	\$ 4.02	\$ (0.38)	\$ (0.24)
Net earnings (loss) from discontinued operations	-	-	-	-	-	0.03	-	(0.10)
Net earnings (loss)	(0.32)	0.07	(0.33)	(0.39)	(0.10)	4.05	(0.38)	(0.34)
Per Stapled Unit¹ – basic and diluted								
Earnings (loss) from continuing operations available for distribution	\$ (0.27)	\$ 0.15	\$ (0.29)	\$ (0.34)	\$ (0.05)	\$ 4.24	\$ (0.11)	\$ 0.03
Earnings (loss) from continuing operations available for distribution before accretion, changes in fair value of financial instruments held for trading, gain on modification of Series A Subordinate Notes and provision for future income tax expense (recovery)	(0.06)	(0.12)	(0.11)	(0.14)	(0.17)	(0.14)	(0.12)	0.02
Distributable cash from continuing operations ²	(0.04)	(0.13)	(0.05)	(0.07)	(0.20)	(0.15)	(0.08)	0.06
Distributable cash from discontinued operations ²	-	-	-	-	-	-	-	(0.10)
Distributable cash ²	(0.04)	(0.13)	(0.05)	(0.07)	(0.20)	(0.15)	(0.08)	(0.04)
Distributions paid	\$ -	\$ -	\$ -	\$ -	\$ -	\$ 0.27	\$ 0.27	\$ 0.27

1 Per common share and per Stapled Unit amounts presented for each quarter have been determined based on the weighted average number of common shares or weighted average number of Stapled Units outstanding during the quarter. Per common share and per Stapled Unit amounts by quarter do not necessarily add to the total of the year due to changes in the weighted average number of common shares and Stapled Units outstanding during the year.

2 Distributable cash does not have a standardized meaning prescribed by Canadian Generally Accepted Accounting Principles and may not be comparable to similar measures presented by other companies. Management believes that the presentation of this measure will enhance an investor's understanding of the Company's operating performance.

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8. 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 periods beginning on or after January 1, 2011.

IFRS are premised on a conceptual framework similar to Canadian GAAP, however, significant differences exist in certain matters of recognition, measurement and disclosure. TimberWest will adopt IFRS according to requirements outlined by the AcSB, and is in the process of preparing for the adoption of IFRS on January 1, 2011.

The Company’s IFRS conversion project began in 2008 and it has established a formal project governance structure which includes the audit committee, senior management and a steering committee. A detailed review of the impact of IFRS on the Company’s financial statements is ongoing. A qualified external advisor has been engaged by the Company to assist in the IFRS conversion project. The audit committee is updated on a quarterly basis and training is provided as necessary. The project is progressing according to plan.

The Company’s IFRS conversion project consists of four phases: raise awareness; assessment; design; and implementation. The Company expects the transition to IFRS to impact accounting, financial reporting, internal control over financial reporting, taxes and information systems and processes.

The Company has identified areas that are expected to be impacted by the conversion to IFRS. These areas include the Company’s private timberlands, higher and better use lands, impairment of assets, provisions, and employee future benefits. The Company continues to assess the financial reporting impact of IFRS on these areas and will make IFRS accounting policy choices throughout 2010.

As the Company continues to evaluate the impact of adoption on its processes and accounting policies it will provide updated disclosure where appropriate.

The Company is examining these and other issues and is developing tools and training for the Company’s key users in order to ensure compliance with IFRS requirements.

9. Disclosure controls and internal control over financial reporting

During the quarter ended March 31, 2010, there was no change in the Company’s internal control over financial reporting that has materially affected, or is reasonably likely to materially affect the Company’s internal control over financial reporting.

TIMBERWEST FOREST CORP.**CONSOLIDATED STATEMENTS OF OPERATIONS AND COMPREHENSIVE INCOME (LOSS)**

Unaudited (in millions of dollars, except per share amounts)	Three months ended March 31	
	2010	2009
Sales	\$ 58.7	\$ 30.4
Operating costs and expenses:		
Cost of sales	52.5	29.7
Selling, administrative and other	3.1	2.9
Depreciation, depletion and amortization	1.1	0.9
	56.7	33.5
Operating earnings (loss) from continuing operations	2.0	(3.1)
Interest expense:		
Series A Subordinate Notes owned by unitholders	5.3	5.0
Convertible debentures	3.5	1.7
Long-term bank debt	2.6	2.1
Short-term bank debt	-	0.5
	11.4	9.3
Financing transaction costs	-	5.4
Amortization of deferred financing costs	1.0	0.5
Change in fair value of financial instruments held for trading (notes 9, 11 and 16)	16.7	(2.0)
Other expense (income)	0.1	0.1
	29.2	13.3
Loss before income taxes from continuing operations	(27.2)	(16.4)
Income tax expense (recovery) (note 5)	(2.5)	(8.8)
Net loss and comprehensive loss from continuing operations	(24.7)	(7.6)
Net loss and comprehensive loss from discontinued operations (note 4)	-	(0.1)
Net loss and comprehensive loss	\$ (24.7)	\$ (7.7)
Basic and diluted loss from continuing operations per share (note 6)	\$ (0.32)	\$ (0.10)
Basic and diluted loss from discontinued operations per share (note 6)	-	-
Basic and diluted loss per share (note 6)	(0.32)	(0.10)

CONSOLIDATED STATEMENTS OF RETAINED EARNINGS (DEFICIT)

Unaudited (in millions of dollars)	Three months ended March 31	
	2010	2009
Retained earnings, beginning of period	\$ 195.0	\$ 250.8
Net loss and comprehensive loss for the period	(24.7)	(7.7)
Retained earnings, end of period	\$ 170.3	\$ 243.1

See accompanying notes to the unaudited interim consolidated financial statements.

TIMBERWEST FOREST CORP.

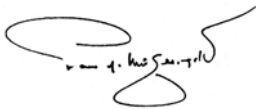
CONSOLIDATED BALANCE SHEETS

	March 31, 2010	December 31, 2009
	Unaudited	
<i>(in millions of dollars)</i>		
Assets		
Current assets:		
Cash	\$ 4.0	\$ 1.8
Accounts receivable	7.1	5.8
Inventories (note 7)	29.3	27.2
Prepaid expenses and other current assets	3.4	3.0
Future income taxes	1.7	1.6
	45.5	39.4
Property, plant and equipment (note 8)	1,212.4	1,213.0
Other assets (note 9)	10.3	12.0
	\$ 1,268.2	\$ 1,264.4
Liabilities and Unitholders' Equity		
Current liabilities:		
Accounts payable and accrued liabilities	\$ 27.1	\$ 23.9
Deferred distribution payable (note 13)	6.7	3.3
Discontinued operations	-	0.2
	33.8	27.4
Revolving credit facilities (note 10)	154.6	152.6
Convertible debentures (note 11)	226.8	207.8
Long-term silviculture liability	3.2	3.0
Employee future benefits (note 12)	37.2	37.1
Deferred distribution payable (note 13)	29.0	28.8
Stapled Unit option plan (note 15)	1.6	1.5
Future income taxes	169.2	171.1
	655.4	629.3
Series A Subordinate Notes owned by unitholders (note 14)	249.5	247.1
	904.9	876.4
Unitholders' equity		
Share capital, consisting of common shares (note 14)	191.0	191.0
Contributed surplus	2.0	2.0
Retained earnings	170.3	195.0
	363.3	388.0
	\$ 1,268.2	\$ 1,264.4

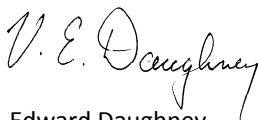
Subsequent event (notes 2, 10, 11 and 14)

See accompanying notes to the unaudited interim consolidated financial statements.

On behalf of the Board of Directors:



Paul J. McElligott
Director



V. Edward Daughney
Director

TIMBERWEST FOREST CORP.

CONSOLIDATED STATEMENTS OF CASH FLOWS

Unaudited (in millions of dollars)	Three months ended March 31	
	2010	2009
Cash provided by (used in):		
Operating activities:		
Net loss from continuing operations	\$ (24.7)	\$ (7.6)
Items not involving cash:		
Depreciation, depletion and amortization	2.1	1.4
Accretion on Series A Subordinate Notes	1.6	1.6
Gain on sale of property, plant and equipment	-	0.2
Future income tax expense (recovery)	(2.0)	(8.8)
Change in deferred distribution payable	3.6	3.4
Change in fair value of financial instruments held for trading	16.7	(2.0)
Convertible debenture interest paid in kind	3.5	-
Other non-cash items	0.7	0.3
	1.5	(11.5)
Changes in non-cash working capital:		
Accounts receivable	(1.3)	(2.2)
Inventories	(2.1)	(2.1)
Prepaid expenses and other working capital	(0.4)	0.7
Accounts payable and accrued liabilities	2.6	(5.7)
	(1.2)	(9.3)
	0.3	(20.8)
Financing activities:		
Issuance of Stapled Units on exercise of options:		
Series A Subordinate Notes	0.5	-
Convertible debentures	-	150.0
Revolving credit facilities	2.0	(45.8)
Term credit facilities	-	(108.3)
Financing transaction costs	-	(3.5)
	2.5	(7.6)
Investing activities:		
Proceeds from sale of property, plant and equipment	-	0.2
Additions to property, plant and equipment	(0.5)	(0.3)
Other assets	(0.1)	(1.2)
	(0.6)	(1.3)
Cash provided by (used in) continuing operations	2.2	(29.7)
Cash provided by (used in) discontinued operations (note 4)	-	(0.6)
Increase (decrease) in cash and cash equivalents	2.2	(30.3)
Cash and cash equivalents, beginning of period	1.8	30.8
Cash and cash equivalents, end of period	\$ 4.0	\$ 0.5
Supplemental information:		
Interest on Series A Subordinate Notes paid to unitholders	\$ -	\$ -
Interest on the convertible debentures paid in cash	\$ -	\$ -
Other interest paid	\$ 2.7	\$ 4.1
Financing costs paid	\$ -	\$ 8.9

See accompanying notes to the unaudited interim consolidated financial statements.

TIMBERWEST FOREST CORP.**CONSOLIDATED BUSINESS SEGMENTS**

Unaudited (in millions of dollars)	Three months ended March 31, 2010			
	Timberlands	Real Estate	Other	Total
Sales	\$ 57.7	\$ 1.0	\$ -	\$ 58.7
Operating earnings (loss)	5.5	-	(3.5)	2.0
Total assets	983.5	264.7	20.0	1,268.2
Additions to property, plant and equipment	0.1	0.4	-	0.5

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

In 2009, the Company 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.

TIMBERWEST FOREST CORP.

NOTES TO THE UNAUDITED INTERIM CONSOLIDATED FINANCIAL STATEMENTS

For the three months ended March 31, 2010 and 2009

(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, 2009.

2. Going concern

The Company has forecasted its financial results and cash flows for 2010 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 10) 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 2009 refinancing arrangements.

The current economic environment for the North American forest products industry is challenging with substantially lower than average sales prices and high unit costs due to low production. TimberWest responded to these conditions by reducing logging production, reducing overhead costs, restructuring labour and contractor agreements, reducing its working capital investment, paying the interest on the convertible debentures in kind starting with the October 15, 2009 payment, deferring payment of the distributions to unitholders, and diversifying log sales to Asia. In addition, subsequent to March 31, 2010 the Company is in the process of acquiring financing to sustain and maintain long term liquidity.

The accompanying interim 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 interim consolidated financial statements do not include any adjustments relating to the recoverability and classification of recorded asset amounts and the amount and classification of liabilities that might be necessary should the Company be unable to continue as a going concern.

The Company’s continuation as a going concern is ultimately dependent upon its future financial performance, which will be affected by general economic, competitive and other factors, many of which are beyond the Company’s control. In the short term, any significant strengthening of the Canadian dollar, or further decline in U.S. housing and Vancouver Island real estate markets which affects demand or other unexpected adverse developments could adversely impact the Company’s liquidity.

TIMBERWEST FOREST CORP.**NOTES TO THE UNAUDITED INTERIM CONSOLIDATED FINANCIAL STATEMENTS (continued)****For the three months ended March 31, 2010 and 2009**

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

3. Segmented information

Commencing in 2009, the Company 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 these products to targeted customers in both the domestic and higher value export markets.

Real Estate – Couverdon, the real estate division of TimberWest, is mandated 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 Real Estate.”

4. Discontinued operations

On May 9, 2008, the Elk Falls sawmill and planer mill 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. Ongoing costs such as property taxes continue to be expensed as incurred. The Company is assessing alternatives for the former sawmill site.

	Three months ended March 31	
	2010	2009
Sales	\$ -	\$ -
Loss before income taxes	\$ -	\$ (0.1)
Net loss	\$ -	\$ (0.1)

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 ended March 31, 2010 (2009 - nil).

	Three months ended March 31	
	2010	2009
Cash flow from operating activities	\$ -	\$ (0.6)
Cash flow from financing activities	-	-
Cash flow from investing activities	-	-
Cash provided by operations	\$ -	\$ (0.6)

TIMBERWEST FOREST CORP.**NOTES TO THE UNAUDITED INTERIM CONSOLIDATED FINANCIAL STATEMENTS (continued)****For the three months ended March 31, 2010 and 2009**

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

5. Income taxes

	Three months ended March 31	
	2010	2009
Current income tax recovery	\$ (0.5)	\$ -
Future income tax recovery	(2.0)	(8.8)
	\$ (2.5)	\$ (8.8)

In the first quarter of 2010, the Company undertook an internal capital reorganization related to the amalgamation of a 100% owned subsidiary, resulting in a net future income tax recovery.

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

6. Earnings (loss) per share

	Three months ended March 31	
	2010	2009
Net loss from continuing operations	\$ (24.7)	\$ (7.6)
Net loss	(24.7)	(7.7)
Basic weighted average number of common shares	77,794,457	77,765,440
Incremental common shares from potential exercise of options	591,969	1,215
Diluted weighted average number of common shares	78,386,426	77,766,655
Basic and diluted net loss from continuing operations per common share	(0.32)	(0.10)
Basic and diluted net loss from discontinued operations per common share	-	-
Basic and diluted net loss per common share	(0.32)	(0.10)

The convertible debentures have been considered in the computation of diluted earnings (loss) per share and given that the Company has generated losses these were determined to have been anti-dilutive.

TIMBERWEST FOREST CORP.**NOTES TO THE UNAUDITED INTERIM CONSOLIDATED FINANCIAL STATEMENTS (continued)****For the three months ended March 31, 2010 and 2009**

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

7. Inventories

	March 31, 2010	December 31, 2009
Logs	\$ 29.3	\$ 27.2

The \$2.1 million increase in log inventory from December 31, 2009 is primarily due to increased logging production.

The write-down associated with accounting for log inventories at net realizable value has been reduced by \$0.7 million at March 31, 2010 over December 31, 2009, which was offset against cost of sales for the period (Q1, 2009 - \$0.5 million increase in the write-down to log inventory, which was expensed to cost of sales for the period.)

8. Property, plant and equipment

Property, plant and equipment at March 31, 2010, includes private lands with a carrying value of \$1,166.3 million (December 31, 2009 - \$1,165.9 million). This amount includes a valuation increase adjustment of \$373.7 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.

9. Other assets

	March 31, 2010	December 31, 2009
Deferred financing costs	\$ 4.5	\$ 5.4
Financial instruments	5.1	5.9
Other	0.7	0.7
	\$ 10.3	\$ 12.0

Financial instruments of \$5.1 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 14). 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 \$4.4 million (2009 - \$5.2 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 \$0.7 million (2009 - \$0.7 million).

Changes in the fair value of these embedded derivatives from one period to the next are recognized in the statement of operations and comprehensive income (loss) in the period (note 16).

TIMBERWEST FOREST CORP.

NOTES TO THE UNAUDITED INTERIM CONSOLIDATED FINANCIAL STATEMENTS (continued)

For the three months ended March 31, 2010 and 2009

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

10. Credit facilities

The Company's credit facilities are as follows:

	March 31, 2010	December 31, 2009
Secured revolving credit facility of up to \$230.0 million due February 11, 2012 with interest based on Canadian or U.S. Prime rates + 5%, or Canadian BA rates + 6%	\$ 154.6	\$ 152.6

Under the secured revolving credit 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.

The facility includes financial covenants to maintain:

- a waiver of the minimum EBITDA tests for both 2010 and 2011, with the maximum availability under the line set at \$220 million for 2010 and \$215 million for 2011. So long as the Company generates minimum EBITDA of \$325,000 per quarter on a cumulative basis in 2011, then the maximum availability under the line will be increased to \$230 million for 2011.
- 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.
- a permanent repayment provision which specifies that once cumulative real estate proceeds exceed \$50 million, 50% of additional proceeds will be applied to permanently reduce the facility size. The remaining 50% can be used by the Company to improve its liquidity. Current cumulative real estate proceeds are \$24.8 million.
- on a best efforts basis, the Company will seek the required approvals necessary to allow it to pay the 9% interest obligation on its convertible debentures in kind beyond the initial four quarters already announced through to maturity of the credit facility.

The complete terms of the revolving credit agreement and amendment are filed on SEDAR.

Bank EBITDA calculations include proceeds of real estate sales and other items. At March 31, 2010 the Company is in compliance with the terms of its credit facility.

Transaction costs related to this financing have been deferred and capitalized on the balance sheet as they relate to debt refinancing held at amortized cost. The unamortized balance of these costs at March 31, 2010 was \$4.5 million. Amortization of deferred financing costs relating to the credit facility recognized on the consolidated statements of operation and comprehensive income for Q1, 2010 was \$1.0 million (Q1, 2009 - \$0.5 million).

Subsequent to the end of the first quarter 2010, on April 27, 2010, the Company completed an amendment to the bank loan agreement with its syndicate of banks. The amendment removes the requirement that the Company pay interest on its convertible debentures by issuing additional convertible debentures in lieu of cash. In connection with the amendment, the Company cannot make cash distributions on the Stapled Units unless its available cash exceeds, in the applicable year, the following thresholds: \$90 million in 2010; \$75 million in 2011; and \$75 million in 2012.

TIMBERWEST FOREST CORP.**NOTES TO THE UNAUDITED INTERIM CONSOLIDATED FINANCIAL STATEMENTS (continued)****For the three months ended March 31, 2010 and 2009**

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

11. Convertible debentures

Details as to the Company's convertible debentures are as follows:

	Face Value	Fair Value
Balance, December 31, 2008	\$ -	\$ -
Three months ended, March 31, 2009		
Change in value as a result of:		
Initial convertible debentures issuance, February 11, 2009	150.0	150.0
Change in fair value		(2.0)
Balance, March 31, 2009	\$ 150.0	\$ 148.0
Balance, December 31, 2009	\$ 153.4	\$ 207.8
Three months ended, March 31, 2010		
Change in value as a result of:		
Interest paid in kind through issuance of convertible debentures	3.5	4.6
Conversions	(0.1)	(0.1)
Change in fair value		14.5
Balance, March 31, 2010	\$ 156.8	\$ 226.8

The convertible debentures mature on February 11, 2014 and are convertible into Stapled Units at \$3.50. The convertible debentures pay interest quarterly at 9% with the first interest payment made on April 15, 2009.

The Company has elected to designate this obligation as 'held-for-trading' and it is to be revalued at fair value at each reporting date. Changes in fair value from one period to the next are recognized in the statement of operations and comprehensive income (loss) in the period. For the three months ended March 31, 2010 the change in fair value was a loss of \$14.5 million (Q1, 2009 – gain of \$2.0 million) (note 16). To determine the fair value of the convertible debentures management relies on the current trading price of the securities in the market. The key reason that the fair value has increased is because the conversion price of \$3.50 per Stapled Unit is considerably lower than the Stapled Unit trading price of \$4.50 at the end of the quarter. Transaction costs of \$5.4 million were incurred and expensed to the statement of operations in Q1, 2009.

During Q1, 2010 the Company paid the January 15, 2010 interest obligation by issuing convertible debentures with a face value of \$3.5 million and a fair value of \$4.6 million (Q1, 2009 – no interest paid in kind). Conversions during Q1, 2010 totaled \$0.1 million at face and fair value with 13,124 Stapled Units being issued upon conversion (Q1, 2009 – no conversions took place).

During Q1, 2010 the Company recorded interest expense of \$3.5 million (Q1, 2009 - \$1.7 million), which was paid in kind by issuing convertible debentures with a face value of \$3.5 million and a fair value of \$4.9 million on April 15, 2010. At March 31, 2010 the Company had accrued the fair value of interest payable within accounts payable and accrued liabilities on its consolidated balance sheets.

Subsequent to the end of the first quarter 2010, on April 27, 2010, the Company completed an amendment to the bank loan agreement with its syndicate of banks. The amendment removes the requirement that the Company pay interest on its convertible debentures by issuing additional convertible debentures in lieu of cash.

TIMBERWEST FOREST CORP.**NOTES TO THE UNAUDITED INTERIM CONSOLIDATED FINANCIAL STATEMENTS (continued)**

For the three months ended March 31, 2010 and 2009

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

12. Employee future benefits

	March 31, 2010	December 31, 2009
Pension benefits	\$ 9.5	\$ 9.6
Non-pension benefits	27.7	27.5
	\$ 37.2	\$ 37.1

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 Q1, 2010, the Company recorded an expense of \$0.4 million for pension benefit costs (Q1, 2009 – \$0.4 million) and made cash payments of \$0.4 million to fund current service costs (Q1, 2009 – \$0.5 million).

The Company also provides non-pension benefits consisting of group life insurance and medical benefits to eligible retired employees, which the Company funds on an as-incurred basis. For Q1, 2010, the Company recorded an expense of \$0.6 million for non-pension benefit costs (Q1, 2009 - \$0.6 million) and made cash payments of \$0.5 million to fund current benefit costs (Q1, 2009 – \$0.6 million).

13. Deferred distribution payable

	March 31, 2010	December 31, 2009
April 15, 2010 distribution (2%) with a face value of \$3.5 million due by October 15, 2011	\$ 3.1	\$ -
January 15, 2010 distribution (2%) with a face value of \$3.5 million due by July 15, 2011	3.2	3.1
October 15, 2009 distribution (2%) with a face value of \$3.5 million due by April 15, 2011	3.2	3.2
July 15, 2009 distribution (2%) with a face value of \$3.5 million due by January 15, 2011	3.3	3.3
April 15, 2009 distribution (2%) with a face value of \$3.5 million due by October 15, 2010	3.4	3.3
January 15, 2009 distribution (12%) with a face value of \$21.0 million due by April 15, 2011	19.5	19.2
	\$ 35.7	\$ 32.1
Less current portion	(6.7)	(3.3)
	\$ 29.0	\$ 28.8

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 14) 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.

TIMBERWEST FOREST CORP.**NOTES TO THE UNAUDITED INTERIM CONSOLIDATED FINANCIAL STATEMENTS (continued)****For the three months ended March 31, 2010 and 2009**

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

14. Stapled units

	Number	Stapled Unit Components				Total Share Capital	Total Stapled Units
		Series A Subordinate Notes	Preferred Shares	Common Shares	Issue Costs		
Three months ended March 31, 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 exercise of options	-	-	-	-	-	-	-
Accretion on Series A Subordinate Notes	-	1.6	-	-	-	-	1.6
Change in fair value of embedded derivatives	-	(0.4)	-	-	-	-	(0.4)
Balance, March 31, 2009	77,765,440	\$ 241.6	\$ 190.1	\$ 31.4	\$ (30.5)	\$ 191.0	\$ 432.6
Three months ended March 31, 2010:							
Balance, December 31, 2009	77,776,632	\$ 247.1	\$ -	\$ 221.5	\$ (30.5)	\$ 191.0	\$ 438.1
Issuance of Stapled Units on conversion of debentures	13,124	0.1	-	-	-	-	0.1
Issuance of Stapled Units on exercise of options	148,181	0.7	-	-	-	-	0.7
Accretion on Series A Subordinate Notes	-	1.6	-	-	-	-	1.6
Balance, March 31, 2010	77,937,937	\$ 249.5	\$ -	\$ 221.5	\$ (30.5)	\$ 191.0	\$ 440.5

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.

TIMBERWEST FOREST CORP.**NOTES TO THE UNAUDITED INTERIM CONSOLIDATED FINANCIAL STATEMENTS (continued)****For the three months ended March 31, 2010 and 2009**

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

14. 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 10) and convertible debentures (note 11). The principal amount of the Series A Subordinate Notes plus accrued and unpaid interest thereon are due on August 31, 2038, unless such date is extended by the Company at the time of the issuance of additional subordinate notes to a date not later than the earlier of: (i) the date of maturity of such additional subordinate notes; and (ii) August 31, 2048, and will be payable by cash or, at the option of the Company, by delivery of common shares to the Subordinate Note Trustee for the benefit of the holders of the subordinate notes.

The revalued Series A Subordinate Notes are 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 \$699.8 million on maturity. For the three months ending March 31, 2010, accretion recognized in the statement of operations was \$1.6 million (Q1, 2009 - \$1.6 million).

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 March 31, 2010 the fair value of this option is \$4.4 million (December 31, 2009 - \$5.2 million) and is accounted for as Other Assets (note 9).

The option to extend the maturity date on the Series A Subordinate Notes from August 31, 2038 to August 31, 2048 is an embedded derivative under Canadian GAAP and is revalued at each reporting date. As at March 31, 2010 the fair value of this option is \$0.7 million (December 31, 2009 - \$0.7 million) and is accounted for as Other Assets (note 9).

During Q1, 2010, the Company issued 13,124 Stapled Units on the conversion of the Company's convertible debentures (note 11) (Q1, 2009 – no conversions) and 148,181 Stapled Units were issued on the exercise of Stapled Unit options (note 15) (Q1, 2009 – no options exercised).

Subsequent to the end of the first quarter 2010, on April 27, 2010, the Company announced its intention to raise additional equity through a stapled unit offering. The public offering is \$60 million plus a 15% over allotment option, at a price of \$5.00 per Stapled Unit for 12,000,000 Stapled Units. The offering is scheduled to close on May 18, 2010.

TIMBERWEST FOREST CORP.**NOTES TO THE UNAUDITED INTERIM CONSOLIDATED FINANCIAL STATEMENTS (continued)****For the three months ended March 31, 2010 and 2009**

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

15. Stapled Unit option plan

Under the Company's Stapled Unit Option Plan, the Company may grant options for the purchase of Stapled Units to directors, officers or employees who are in active service or employment of the Company or of any of its subsidiaries. During the quarter ended March 31, 2010, 848,797 Stapled Unit options were granted at an average exercise price of \$5.25 (Q1, 2009 – 1,696,827 Stapled Unit options were granted at an average exercise price of \$3.00).

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, no compensation cost was recognized in Q1, 2010 for the 848,797 Stapled Unit options granted between January 1, 2010 and March 31, 2010, based on an intrinsic value method of accounting. The compensation cost recognized in Q1, 2010 for the 1,449,599 Stapled Unit options granted during 2009 and outstanding as at March 31, 2010 based on an intrinsic value method of accounting was \$0.4 million, with a corresponding credit to the Stapled Unit option plan liability.

The compensation cost for the 1,696,827 Stapled Unit options granted between January 1, 2009 and March 31, 2009, based on an intrinsic value method of accounting, for the three months ended March 31, 2009 was \$0.1 million. A corresponding amount was expensed in the period with a corresponding credit to the Stapled Unit option plan liability.

Under the Company's Distribution Equivalent Plan, the Company awards Stapled Unit option holders an amount equal to actual distributions paid on the Company's Stapled Units. Awards granted under the Distribution Equivalent Plan vest under the same terms that apply to the corresponding options and can only be exercised at the time of exercise of the corresponding options.

Awards are accrued on a basis equal to actual distributions paid on the Company's issued and outstanding Stapled Units and are charged to earnings as the underlying Stapled Unit options vest. For the three months ended March 31, 2010, no amount was accrued as no distributions were paid (Q1, 2009 – no amount was accrued as no distributions were paid) and no amount has been amortized against earnings (Q1, 2009 – \$0.1 million).

TIMBERWEST FOREST CORP.**NOTES TO THE UNAUDITED INTERIM CONSOLIDATED FINANCIAL STATEMENTS (continued)****For the three months ended March 31, 2010 and 2009**

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

15. Stapled Unit option plan (continued)

During the three months ended March 31, 2010, 148,181 Stapled Unit options were exercised, with an average exercise price of \$3.01, no Stapled Unit options were cancelled, and 280,134 Stapled Unit options expired with an average exercise price of \$14.85 (Q1, 2009 – no Stapled Unit options were exercised, 47,500 Stapled Unit options with an average exercise price of \$12.72 were cancelled and 199,080 Stapled Unit options with an average exercise price of \$12.65 expired).

16. 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, 2009 with one exception.

The public convertible debentures are now considered to trade in an active market and accordingly, fair value is measured based on level 1 inputs, as the trading activity is now considered active. The fair value of the private convertible debentures continues to be measured based on level 2 inputs, as there is no active market for trading.

Details as to the changes in fair value of financial instruments held for trading as recognized in the statement of operations and comprehensive income (loss) are as follows:

(in millions of dollars)	Three months ended	
	March 31	
	2010	2009
Change in fair value of:		
Convertible debentures	14.5	(2.0)
Interest payable in kind on the convertible debentures	1.4	-
Embedded derivatives within the Series A Subordinate Notes	0.8	-
Change in fair value of financial instruments held for trading	16.7	(2.0)

17. 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 320,000 hectares or 791,000 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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