



1

## **FIRST QUARTER INTERIM REPORT**

---

**FOR THE THREE MONTHS ENDED MARCH 31, 2003**

**TimberWest Forest Corp.**

## TIMBERWEST FOREST CORP.

### To Our Unitholders,

I am pleased to report that TimberWest is off to a very strong start in 2003. Net sales for the first quarter were 42% higher than the equivalent prior year period, while operating earnings were 45% higher. Improved results were largely attributable to volume increases in both the log and lumber segments of our business, where sales volumes were up 41% and 16%, respectively, over the first quarter of 2002.

The Company accelerated its harvest to take advantage of favourable weather conditions and to get product into the market in the early part of the quarter before pricing and currency moved against us. This volume means we will harvest less during other quarters this year.

I am also pleased to announce TimberWest's next quarterly distribution of \$0.269 per Stapled Unit, payable on July 15, 2003, to unitholders of record on July 1, 2003. Since TimberWest's inception in July 1997, including the distribution paid on April 15, 2003, the Company has distributed in excess of \$422 million to its unitholders.

Distributable cash was \$25.7 million, or \$0.34 per weighted average Stapled Unit for the quarter, compared to \$21.2 million, or \$0.30 per Stapled Unit, for the equivalent period in 2002. This increase is after making capital expenditures of \$7.5 million comprised primarily of two strategic capital investments of some \$3 million each in the first quarter of 2003. These expenditures were made to complete the new dryland sort and to initiate the 2003 capital upgrade program at our Elk Falls lumbermill.

Earnings available for distribution before provision for future income tax expense were \$26.3 million, or \$0.35 per weighted average Stapled Unit for the quarter. This is the third consecutive quarter in which earnings available for distribution exceeded the Company's quarterly distributable cash requirement. This is an important focus for TimberWest as reducing our reliance on the proceeds from disposition of surplus real estate strengthens the quality of our distributions to unitholders.

I am also pleased to report that our Operations Excellence strategy continues to be successfully implemented. We set out to achieve a further \$4.50 per cubic metre reduction in our logging cost of production this year and we are well on the way to achieving this objective. In fact, we are ahead of our planned cost reduction targets for the quarter.

The Elk Falls Lumbermill remains breakeven from an EBITDA perspective after being assessed the international price for logs. This is a very good result in these difficult market conditions, which have caused other sawmillers on the Coast to experience temporary shutdowns.

Ongoing safety improvement is a focus throughout the organization and we realized our best quarter ever with a Medical Incident Rate of 2.65 in Q1 2003.

In terms of the public land logging and sawmilling industry in BC, a major event in the quarter was the announcement of long-awaited forest policy reforms aimed at eliminating the social engineering of the past and moving to a new framework that relies more heavily on market forces. The government will introduce a new timber pricing system based on auctions, reallocate 20% of logging rights from major licensees (including 200,000 m<sup>3</sup> from TimberWest), abolish appurtenancy, timber processing requirements and cut control, allow forest tenure holders to subdivide or transfer all or part of their cutting rights to other operators without penalty, and amend legislation governing the use of contractors for harvesting crown logs. When fully operational, it is intended that market forces will drive Crown timber prices, government stumpage revenues, and timber harvesting fees on public land.

I want to emphasize that these changes apply to our public land business, not our private timberlands where we generate the bulk of our harvest and cash flow.

There are many issues that still need to be worked out regarding the forest policy changes recently announced, and more information is required before we can properly assess how the new policies will affect TimberWest. At this point, we do not know how tenure will be taken back, how companies will be compensated for the loss of timber harvesting rights or how timber auctions will function. The process could take two to three years to fully implement.

While TimberWest is concerned about transitional issues and the details that have yet to follow, the Company supports the need to establish an industry based on market forces and views the reforms recently announced as a step in the right direction. As the largest private forest landowner in Western Canada, we also believe that as First Nations issues are resolved, the privatization of some of BC's Crown forest lands would guarantee the future competitiveness of the industry, ensure that the province realizes the full economic potential of its forests, encourage enhanced investment in the resource and facilitate free trade in lumber.

The softwood lumber dispute with the US continued throughout the first quarter. While meetings have been suspended since February, there are some indications that negotiations may resume in the near future. We remain optimistic that the removal of federal log export restrictions, which apply only to BC, will form part of any settlement and we are encouraged by statements recently made by the federal government on this. At an industry conference in Vancouver in March, the

•  
•  
•  
•  
•  
•  
•  
•  
•  
•

## TIMBERWEST FOREST CORP.

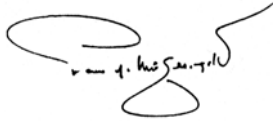
Assistant Deputy Minister to Canada's Minister for International Trade told an audience that the federal government would remove these restrictions for free trade in lumber.

TimberWest continues to present its financial results on a conservative basis. In this vein, during the quarter we have chosen to implement the fair value based method of accounting for stock options, as disclosed in notes 2 and 7 to the accompanying interim financial statements. The Company will continue to monitor changes to governance standards in Canada.

While doing everything we can to work constructively with government on regulatory issues, we will continue to focus internally on enhancing TimberWest's performance with our Operations Excellence strategy.

Thank you for your continued support.

On behalf of the Board of Directors



Paul J. McElligott  
President and Chief Executive Officer

Vancouver, British Columbia  
April 16, 2003

# TIMBERWEST FOREST CORP.

## Management's Discussion and Analysis

### For the three months ended March 31, 2003

*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 2003. This discussion and analysis provides an overview of significant developments that have affected TimberWest's performance during the first quarter of 2003 relative to the first quarter of 2002, and that have affected the Company's financial position as at March 31, 2003, relative to December 31, 2002. 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 2002 Annual Report.*

### Quarterly Financial Highlights

TimberWest generated distributable cash<sup>1</sup> of \$25.7 million, or basic and diluted distributable cash of \$0.34 per weighted average Stapled Unit for the quarter ended March 31, 2003, compared to distributable cash of \$21.2 million, or basic and diluted distributable cash of \$0.30 per weighted average Stapled Unit for the same period in 2002. Earnings available for distribution<sup>1</sup> for the quarter, before provision for future income taxes, were \$26.3 million, or \$0.35 per basic and \$0.34 per diluted weighted average Stapled Unit compared to \$14.9 million, or \$0.21 per basic and diluted weighted average Stapled Unit for the same quarter in 2002. Net sales for the first quarter of 2003 were \$126.6 million compared to net sales of \$88.9 million reported for the first quarter of 2002. Operating earnings were \$30.5 million for the first quarter of 2003 compared to \$21.0 million for the same quarter in 2002. Earnings before interest, taxes, depreciation and amortization ("EBITDA")<sup>1</sup> for the quarter ended March 31, 2003, were \$33.5 million, or \$0.44 per basic and diluted weighted average Stapled Unit compared to \$23.7 million, or \$0.34 per basic and diluted weighted average Stapled Unit for the same period in 2002.

On March 3, 2003, the Company completed and received short-term financing from a Canadian bank in the amount of \$40.0 million pursuant to an unsecured 364-day committed revolving facility due on March 2, 2004. Under this facility, funds are available to the Company in both Canadian and US dollars by way of adjusted prime rate-based loans and Canadian dollar bankers' acceptances.

The Company retired \$106.5 million aggregate principal amount of its 6.5% debentures when they matured on March 3, 2003, settling this obligation with funds drawn from available credit facilities.

### British Columbia Forestry Revitalization Plan

In March 2003, the Government of BC (the "Crown") introduced its Forestry Revitalization Plan (the "Plan"), including enabling legislation through the new *Forest Revitalization Act*, the new *Forest and Range Practices Act*, and amendments to the existing *Forest Act*. The Plan provides for significant changes to Crown forest policy and to the existing allocation of Crown timber tenures to licensees. The changes prescribed in the Plan include the relaxing of minimum cut control regulations, the elimination of appurtenancy and timber processing regulations, more flexibility to consolidate and subdivide forest tenures, increased freedom to transfer forest tenures without restriction or penalty and a new market-based stumpage system. As well, licensees, including the Company, will be required to return 20% of their aggregate allowable annual cut to the Crown, with the first 200,000 m<sup>3</sup> exempt. The Plan states that approximately half of this volume will be redistributed to open up opportunities for woodlots, community forests and First Nations and the other half will be made available for public auction. The Crown has acknowledged that licensees will be fairly compensated for lost harvesting rights, for improvements on Crown land and for one-time costs associated with the termination of employees and contractors.

The effect of the timber take-back is expected to result in a reduction of approximately 200,000 m<sup>3</sup> of the Company's existing allowable annual cut on replaceable Crown tenures. The effect of the Plan on the Company's financial position and results of operations cannot be determined at this time. However, it is important to note that the Plan does not apply to the Company's private timberlands, which account for the bulk of our harvest and cash flow.

The Government has also announced its intention to modify Bill 13, the *Timber Harvesting Contract and Subcontract Regulation*, before the end of 2003, and its commitment to work with contractors, licensees and arbitrators to create a more efficient and effective dispute resolution process and more competitive contract rates.

<sup>1</sup> Distributable cash, earnings available for distribution and EBITDA are measures that do not have a standardized meaning prescribed by Canadian generally accepted accounting principles ("GAAP") and may not be comparable to similar measures presented by other companies. A reconciliation between net earnings as determined in accordance with GAAP and both distributable cash and earnings available for distribution is provided in the Consolidated Statements of Distributable Cash included as part of this interim report. A reconciliation between net earnings as determined in accordance with GAAP and EBITDA is provided in the supplemental information appended to this interim report.

# TIMBERWEST FOREST CORP.

## Cash Distribution

On April 16, 2003, TimberWest announced a distribution of \$0.269 per Stapled Unit, payable July 15, 2003, to unitholders of record on July 1, 2003. Since TimberWest's inception in July 1997, including the distribution paid on April 15, 2003, the Company has distributed \$422.7 million to unitholders.

Due to the seasonal and cyclical nature of TimberWest's business, cash flows may fluctuate from quarter to quarter and from year to year. One of the objectives of TimberWest's cash distribution policy is to make even distributions to unitholders, which may differ from actual cash generated during the period.

## Operating Highlights

Log sales for the three months ended March 31, 2003, were \$103.8 million, up 42% from log sales of \$73.0 million for the quarter ended March 31, 2002. This increase reflects a 41% increase in the volume of logs sold, with 919.4 thousand m<sup>3</sup> sold in the first quarter of 2003 compared with 649.8 thousand m<sup>3</sup> sold in the first quarter of 2002. This increase was attributed to higher sales to domestic market customers, with volumes sold into this market more than doubling to 566.4 thousand m<sup>3</sup>, up from 266.9 thousand m<sup>3</sup> for the first quarter of 2002. Favourable weather conditions and favourable market conditions early in the quarter allowed the Company to increase harvests from both its private timberlands and its Crown tenures, with proportionately more harvested from public land than during the first quarter of the prior year. Export sales for the first quarter of 2003 were down 8%, falling to 353.0 thousand m<sup>3</sup> for the quarter from 382.9 thousand m<sup>3</sup> for the comparative period in 2002. Overall log sales realizations averaged \$113 per m<sup>3</sup> for the first quarter of 2003, comparable to the \$112 per m<sup>3</sup> realized in the first quarter of 2002. While domestic realizations were down 2%, export realizations were 15% higher than those in the comparative quarter of 2002.

The cost reduction program for 2003 continues to gain momentum and for the first quarter, the focus on cost reduction allowed the Company to offset higher stumpage and a higher volume of more costly purchased logs. Operating margin from timberland operations for the first quarter of 2003 averaged 34% of log sales compared to 35% of log sales for the first three months of 2002. Production costs were \$71 per m<sup>3</sup> compared to \$68 per m<sup>3</sup> for the same quarter last year. Had stumpage been equivalent to this time last year, logging production costs would have been approximately \$65 per m<sup>3</sup> for the quarter.

Lumber sales for the quarter ended March 31, 2003, were \$16.6 million, ahead of sales of \$12.7 million reported for the comparative quarter in 2002. This improvement reflects a combination of improved lumber sales realizations for the quarter, rising to \$532 per mfbm from \$473 per mfbm for the comparative period in 2002, and a 16% increase in the volume of lumber sold, rising to 31.1 million board feet for the quarter from 26.8 million board feet for the first quarter of 2002. While this year's sales realizations appear higher in an ostensibly worse market, it is important to point out that the lumbermill's product mix was vastly different than this time last year. It is the higher value product mix that is a key-contributing factor to the mill's on-going success.

Real estate activity was at a more typical level in the first quarter of 2003, with five real estate sales transactions generating revenues of \$2.6 million, compared to a single property sale in the first quarter of 2002 for proceeds of \$0.7 million.

## Financial Position

Current assets increased \$10.8 million to \$113.1 million at March 31, 2003, from \$102.3 million as at December 31, 2002. This increase can be attributed to an overall increase in inventories of \$8.7 million during the first quarter of 2003, with log inventory increasing \$6.3 million to \$63.3 million and lumber inventory increasing \$2.5 million to \$11.0 million. Mild weather conditions characterized by minimal snowfall continued through the first quarter resulting in higher than planned log production. Typically, winter weather conditions result in reduced production and a decline in coastal log inventories through the first quarter of the year, followed by an increase in production mid-April when weather conditions improve – in the current year, favourable weather resulted in log inventories building in early March. The increase in lumber inventory during the quarter reflects higher volume at March 31, 2003, compared to December 31, 2002, due to increased productivity at the Elk Falls lumbermill and weak, oversupplied markets for the mill's products. Accounts receivable increased \$4.0 million during the first quarter of 2003, up from \$27.0 million at December 31, 2002, primarily due to higher sales volumes late in the first quarter relative to sales volumes late in the fourth quarter of 2002, which were lower due to slow markets during the 2002 holiday season.

Capital assets of \$1,358.4 million as at March 31, 2003, were \$2.8 million greater than at December 31, 2002, reflecting \$7.5 million in capital expenditures during the quarter, partially offset by the current quarter provision for depreciation, depletion and amortization of \$2.6 million and the sale of capital assets for proceeds of \$3.1 million. Significant capital expenditures during the quarter included \$3.3 million to complete the North Island log sort, and \$2.9 million towards the purchase of new dry kilns and other improvements at the Elk Falls lumbermill.

Current liabilities at the end of the first quarter of 2003 were \$112.8 million, down \$60.2 million from \$173.0 million as at December 31, 2002. This decrease can be attributed to the retirement of \$106.5 million aggregate principal amount of 6.5% debentures on March 3, 2003, their maturation date. The debenture retirement was funded from drawings on

# TIMBERWEST FOREST CORP.

available credit facilities, including \$40.0 million drawn on the unsecured 364-day committed revolving facility providing up to \$40.0 million that was completed and received from a Canadian bank during the quarter and approximately \$66.5 million drawn on the Company's unsecured revolving facility providing up to \$125.0 million. Accounts payable and accrued liabilities increased \$6.3 million during the first quarter, to \$52.3 million at March 31, 2003. This increase is primarily attributable to an increase in trade accounts payable arising from the increase in production during the quarter relative to the fourth quarter of 2002. The distribution payable at the end of the first quarter of 2003 is consistent with the \$20.5 million payable at December 31, 2002, and reflects a consistent per unit distribution and no significant change in the number of Stapled Units outstanding during the quarter.

In addition to drawings of \$66.7 million on the Company's \$125.0 million unsecured revolving facility, long-term liabilities as at March 31, 2003, included \$130.0 million aggregate principal amount of 7.0% unsecured senior debentures, a silviculture liability of \$4.6 million, a \$23.9 million liability relating to non-pension post retirement benefits and a future income tax liability of \$232.5 million. These liabilities have not changed materially from balances reported at December 31, 2002.

During the quarter ended March 31, 2003, options to purchase 46,667 Stapled Units were exercised for proceeds of \$0.4 million, 267,047 options were granted and 5,267 options were cancelled.

## Cash Flow and Liquidity

Net cash generated from operations before changes in non-cash working capital for the three months ended March 31, 2003, was \$28.3 million or \$0.37 per basic and diluted weighted average Stapled Unit compared to \$19.3 million or \$0.27 per basic and diluted weighted average Stapled Unit for the corresponding quarter in 2002. During the first quarter of 2003 non-cash working capital increased by \$5.9 million compared to a \$2.7 million increase reported for the same period in 2002. The increase for the first quarter of 2003 reflects higher inventory levels and an increase in accounts receivable, offset in part by higher accounts payable at the end of the first quarter relative to December 31, 2002. The increase for the comparative period reflects an increase in inventory levels and prepaid expense balances to seasonal levels in the prior year.

Net cash used for financing activities during the first quarter of 2003 was \$19.9 million compared to \$18.3 million used for financing activities in the comparative period of 2002. In the first quarter of 2003 the Company made a \$20.5 million distribution to unitholders compared to a \$17.4 million distribution in the first quarter of 2002. The \$3.1 million year-over-year increase in distributions paid reflects the increase in the number of Stapled Units outstanding in the current year as a result of the public equity offering completed after the first quarter distribution date in 2002. During the three months ended March 31, 2003, the Company issued 46,667 Stapled Units for net proceeds of \$0.4 million on the exercise of Stapled Unit options. This compares to \$0.6 million received on the exercise of options for 64,251 Stapled Units in the comparative period of 2002. During the first quarter of 2003, the Company retired \$106.5 million aggregate principal amount of 6.5% debentures that matured on March 3, 2003. The retirement of these debentures was funded from drawings on revolving credit facilities available to the Company. A public equity offering was completed during the first quarter of 2002, providing net proceeds of \$136.1 million, which were used to settle amounts outstanding on the Company's previously outstanding non-revolving credit facility.

Net cash used in investing activities during the first quarter of 2003 was \$3.5 million compared to net cash provided by investing activities of \$1.7 million for the same quarter of 2002. This year-over-year variance is due to greater capital expenditures and greater proceeds from real estate sales in the first quarter of 2003 relative to the same period in 2002. First quarter 2003 capital expenditures included \$3.3 million to complete the North Island log sort and \$2.9 million towards the purchase of new dry kilns and other improvements at the Elk Falls lumbermill.

As at March 31, 2003, TimberWest's consolidated debt was \$236.7 million compared to total debt outstanding of \$236.5 million as at December 31, 2002. The Company's consolidated debt-to-total capitalization ratio as at March 31, 2003 was 20:80, consistent with the ratio of 21:79 as at December 31, 2002. Total debt facilities available to the Company as at March 31, 2003, were \$295.0 million, comprised of \$40.0 million available under the 364-day revolving facility due March 2, 2004, \$125.0 million available under the revolving credit facility maturing on June 4, 2004, and \$130.0 million of 7.0% debentures maturing on October 1, 2007.

## Accounting Policy Change

In implementing Canadian Institute of Chartered Accountants ("CICA") Handbook Section 3870 – *Stock-based Compensation and Other Stock-based Payments*, effective January 1, 2002, the Company elected to continue with its previously established policy that no compensation cost was recorded on the grant of Stapled Unit options to directors, officers or employees who are in active service or employment of the Company or of any of its subsidiaries, and complied with the requirement to provide additional disclosure of the effect of stock-based awards on net income and earnings per Stapled Unit on a pro forma basis. For awards granted under the Company's Distribution Equivalent Plan, the principles of the fair value based method of accounting for stock-based compensation were applied and awards were accrued on a basis equal to actual distributions paid on the Company's issued and outstanding Stapled Units and are being charged to income as the underlying Stapled Unit options vest.

# TIMBERWEST FOREST CORP.

In October 2002, the CICA Accounting Standards Board activated a project that would require the recognition of stock-based compensation expenses using the fair value method for all employee stock-based compensation transactions. In this regard, an exposure draft was issued in December 2002 proposing amendments to Section 3870, requiring recognition of expenses for all employee stock-based compensation transactions for fiscal years beginning on or after January 1, 2004. In anticipation of the acceptance of the recommendations of this exposure draft, the Company has changed its policy of accounting for stock-based compensation and will recognize a stock-based compensation expense using the fair value method for all employee stock-based compensation transactions entered into on or after January 1, 2003, including both awards of Stapled Unit options and awards under the Distribution Equivalent Plan. The Company has adopted the recommendations of the exposure draft on a prospective basis and has not applied the fair value based method of accounting to Stapled Unit options granted between January 1, 2002, and December 31, 2002, therefore, there has been no restatement of amounts reported in prior period financial statements.

## Normal Course Issuer Bid

Pursuant to a normal course issuer bid, TimberWest may repurchase, in the open market through the facilities of the Toronto Stock Exchange, up to 3,809,201 Stapled Units, representing approximately 5% of the Company's issued and outstanding Stapled Units as of the date of acceptance of the bid, in the 12 months commencing November 6, 2002. As at March 31, 2003, TimberWest had not repurchased any of its Stapled Units under this bid.

## Outlook

Looking forward to the rest of the year, the near term is likely to bring weaker sales realizations than we experienced in the first quarter. This is a result of the following key market developments.

First, we expect to continue to see the strengthening Canadian dollar have an adverse effect on sales realizations for the Company in the near term. While we expect that supply will regulate eventually, with the effect of improving pricing in Canadian dollars, currency will be a negative factor in the second quarter for US dollar log and lumber sales.

Second, the Japanese lumber market weakened during the first quarter, with reported benchmark prices off by as much as 20% from the beginning of the year. The first quarter is typically a slower building season in Japan, with companies tending to reduce inventories at this time as they all approach March 31<sup>st</sup> fiscal year-ends. However, in the current year there has been a larger scale withdrawal of buyers from the lumber market due to speculation of a higher number of bankruptcies in 2003. The fact that many BC Coastal producers have been running at capacity in the first quarter for the Japanese market has exacerbated this situation. These conditions have resulted in the recent curtailment of production by some Coastal operators, however, it is expected to take several months for the supply in this market to work itself through and that this condition, too, will have an adverse impact on log and lumber pricing in the second quarter. In spite of this, on the log side of the business, our expectation is that sales volumes into Japan will remain steady, although we expect that pricing will be weaker. On the lumber side of the business, for the second quarter we expect that both sales volumes and pricing will fall below that of the first quarter.

Third, the US lumber market continues to be oversupplied. However, economic reports indicate that North American lumber production curtailments are on the rise. The extent of these curtailments will determine if and when this situation of oversupply abates. Economic indicators continue to provide mixed messages about the US economy. If anything, there is some sentiment that housing starts are coming under downward pressure in the US. All things considered, TimberWest expects to ship a similar volume of logs into this market as we did in 2002, but expect overall pricing to be lower in the near term.

The key to TimberWest's success will be the continued implementation of our Operations Excellence strategy. Cost reduction initiatives continue to gain momentum throughout the organization, and results to date indicate that we are on track to achieve our cost reduction goal of \$4.50 per m<sup>3</sup> for 2003.

Despite weaker overall market conditions, we anticipate completing the planned capital improvements at our Elk Falls lumbermill and, later in the year, reaping the benefits of being able to fully participate in the dry lumber market.

Overall, despite challenging market conditions in the near term, TimberWest anticipates meeting Unitholder expectations once again this year while strengthening the fundamentals of our business.

*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.*

# TIMBERWEST FOREST CORP.

## Consolidated Statements of Distributable Cash

(in millions of dollars, except per Stapled Unit amounts)  
Unaudited

	Three months ended March 31, 2003	Three months ended March 31, 2002
Net earnings	\$ 17.7	\$ 7.7
Income tax benefit related to distributions	7.7	6.2
Earnings available for distribution	25.4	13.9
Future income tax expense	0.9	1.0
Earnings available for distribution before provision for future income tax expense	26.3	14.9
Add (deduct):		
Depreciation, depletion and amortization	3.0	4.6
Proceeds from sale of capital assets	3.1	0.8
Gain on sale of capital assets	(1.0)	(0.2)
Capital expenditures	(7.5)	(0.3)
Other non-cash items	1.8	1.4
	(0.6)	6.3
<b>Distributable cash</b>	<b>\$ 25.7</b>	<b>\$ 21.2</b>
<b>Basic and diluted distributable cash per weighted average Stapled Unit</b>	<b>\$ 0.34</b>	<b>\$ 0.30</b>
<b>Cash distributions paid per Stapled Unit</b>	<b>\$ 0.27</b>	<b>\$ 0.27</b>
Basic weighted average number of Stapled Units outstanding for the period (000's)	76,203	70,388
Diluted weighted average number of Stapled Units outstanding for the period (000's)	76,292	70,588
Stapled Units outstanding at the end of the period (000's)	76,239	75,946

## Quarterly Comparison of Distributable Cash

Unaudited

	2003	2002	2001	2000	1999	1998
<b>Distributable Cash (in millions of dollars)</b>						
First	\$ 25.7	\$ 21.2	\$ 25.9	\$ 28.4	\$ 24.5	\$ 13.2
Second		10.6	26.7	28.2	25.1	24.0
Third		34.1	14.1	14.1	14.0	11.5
Fourth		24.2	16.8	18.5	19.7	19.6
	<b>\$ 25.7</b>	<b>\$ 90.1</b>	<b>\$ 83.5</b>	<b>\$ 89.2</b>	<b>\$ 83.3</b>	<b>\$ 68.3</b>
<b>Distributable Cash per Stapled Unit (in dollars)</b>						
First	\$ 0.34	\$ 0.30	\$ 0.40	\$ 0.41	\$ 0.36	\$ 0.19
Second		0.14	0.41	0.42	0.36	0.34
Third		0.45	0.22	0.22	0.20	0.17
Fourth		0.32	0.26	0.29	0.28	0.28
	<b>\$ 0.34</b>	<b>\$ 1.21</b>	<b>\$ 1.29</b>	<b>\$ 1.34</b>	<b>\$ 1.20</b>	<b>\$ 0.98</b>

See accompanying notes to unaudited interim consolidated financial statements.

# TIMBERWEST FOREST CORP.

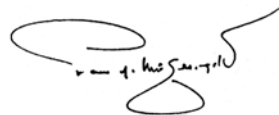
## Consolidated Balance Sheets

(in millions of dollars)

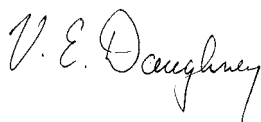
	As at March 31, 2003 <i>Unaudited</i>	As at December 31, 2002
<b>Assets</b>		
Current assets:		
Cash	\$ -	\$ 1.0
Accounts receivable	31.0	27.0
Inventories	76.0	67.3
Prepaid expenses and other current assets	2.4	2.9
Future income taxes	3.7	4.1
	<b>113.1</b>	<b>102.3</b>
Capital assets, net	1,358.4	1,355.6
Other assets	19.1	20.4
	<b>\$ 1,490.6</b>	<b>\$ 1,478.3</b>
<b>Liabilities and Unitholders' Equity</b>		
Current liabilities:		
Revolving credit facility (note 3)	\$ 40.0	\$ -
Debentures (note 4)	-	106.5
Accounts payable and accrued liabilities	52.3	46.0
Distribution payable	20.5	20.5
	<b>112.8</b>	<b>173.0</b>
Revolving credit facility (note 3)	66.7	-
Debentures (note 4)	130.0	130.0
Long-term silviculture liability	4.6	4.8
Non-pension post-retirement benefits	23.9	23.7
Future income taxes	232.5	232.0
	<b>570.5</b>	<b>563.5</b>
Unitholders' equity:		
Stapled Units, consisting of Series A Subordinate Notes, preferred shares and common shares	870.6	870.2
Retained earnings	49.5	44.6
	<b>920.1</b>	<b>914.8</b>
	<b>\$ 1,490.6</b>	<b>\$ 1,478.3</b>

See accompanying notes to unaudited interim consolidated financial statements.

On behalf of the Board of Directors:



Paul J. McElligott  
Director



V. Edward Daughney  
Director

# TIMBERWEST FOREST CORP.

## Consolidated Statements of Cash Flows

(in millions of dollars)  
Unaudited

Three months ended  
March 31, 2003

Three months ended  
March 31, 2002

### Cash provided by (used in):

#### Operating activities:

Earnings before income taxes	\$	26.5	\$	15.1
Cash income taxes (note 5)		(0.2)		(0.2)
		26.3		14.9

#### Items not involving cash:

Depreciation, depletion and amortization		3.0		4.6
Gain on sale of capital assets		(1.0)		(0.2)
		28.3		19.3

#### Changes in non-cash working capital:

Accounts receivable		(4.0)		3.0
Inventories		(8.7)		(1.4)
Prepaid expenses and other working capital		0.5		(1.2)
Accounts payable and accrued liabilities		6.3		(3.1)
		22.4		16.6

#### Financing activities:

Distributions paid to unitholders		(20.5)		(17.4)
Issuance of Stapled Units on exercise of options		0.4		0.6
Issuance of Stapled Units, net		-		136.1
Retirement of 6.5% debentures		(106.5)		-
Increase (decrease) in revolving credit facilities		106.7		(1.0)
Decrease in non-revolving credit facility		-		(137.0)
Increase in overdraft facility		-		0.4
		(19.9)		(18.3)

#### Investing activities:

Capital expenditures		(7.5)		(0.3)
Proceeds from sale of capital assets		3.1		0.8
Decrease in other assets		0.9		1.2
		(3.5)		1.7

#### Increase (decrease) in cash

(1.0) -

#### Cash, beginning of period

1.0 -

#### Cash, end of period

\$ - \$ -

#### Supplemental information:

Interest paid	\$	4.1	\$	5.6
Income taxes paid	\$	0.2	\$	0.2

See accompanying notes to unaudited interim consolidated financial statements.

# TIMBERWEST FOREST CORP.

## Consolidated Statements of Operations

(in millions of dollars)  
Unaudited

	Three months ended March 31, 2003	Three months ended March 31, 2002
Net sales	\$ 126.6	\$ 88.9
Operating costs and expenses:		
Cost of products sold	89.7	61.3
Depreciation, depletion and amortization	2.6	2.6
Selling, administrative and other	3.8	4.0
	<b>96.1</b>	67.9
Operating earnings	30.5	21.0
Interest expense	4.0	4.0
Amortization of deferred financing costs	0.4	2.0
Other income	(0.4)	(0.1)
	<b>4.0</b>	5.9
Earnings before income taxes	26.5	15.1
Income tax expense (note 5)	8.8	7.4
Net earnings	\$ 17.7	\$ 7.7
<i>Basic and diluted earnings (loss) per common share (note 6)</i>	\$ 0.06	\$ (0.09)

## Consolidated Statements of Unitholders' Equity

(in millions of dollars)  
Unaudited

	Stapled Units		Retained earnings	Total Unitholders' equity
	Number	Amount		
<b>For the three months ended March 31, 2003</b>				
Balance, December 31, 2002	76,192,788	\$ 870.2	\$ 44.6	\$ 914.8
Issuance of Stapled Units on exercise of options	46,667	0.4	-	0.4
Net earnings	-	-	17.7	17.7
Interest on Series A Subordinate Notes	-	-	(20.5)	(20.5)
Income tax benefit thereon (note 5)	-	-	7.7	7.7
Balance, March 31, 2003	<b>76,239,455</b>	<b>\$ 870.6</b>	<b>\$ 49.5</b>	<b>\$ 920.1</b>
<b>For the three months ended March 31, 2002</b>				
Balance, December 31, 2001	64,690,867	\$ 728.1	\$ 60.4	\$ 788.5
Issuance of Stapled Units, net	11,190,650	138.9	-	138.9
Issuance of Stapled Units on exercise of options	64,251	0.6	-	0.6
Net earnings	-	-	7.7	7.7
Interest on Series A Subordinate Notes	-	-	(20.4)	(20.4)
Income tax benefit thereon (note 5)	-	-	6.2	6.2
Balance, March 31, 2002	75,945,768	\$ 867.6	\$ 53.9	\$ 921.5

See accompanying notes to unaudited interim consolidated financial statements.

# TIMBERWEST FOREST CORP.

## Notes to Unaudited Interim Consolidated Financial Statements

For the three months ended March 31, 2003

Financial figures presented in the tables that follow are in millions of dollars, except for amounts per Stapled Unit and components thereof.

### 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, 2002, except for a change in accounting for stock-based compensation transactions as detailed below. Certain figures for previous periods have been reclassified to conform to the current period's financial statement presentation.

### 2. Accounting Policy Change

In implementing Canadian Institute of Chartered Accountants ("CICA") Handbook Section 3870 – *Stock-based Compensation and Other Stock-based Payments*, effective January 1, 2002, the Company elected to continue with its previously established policy that no compensation cost was recorded on the grant of Stapled Unit options to directors, officers or employees who are in active service or employment of the Company or of any of its subsidiaries, and complied with the requirement to provide additional disclosure of the effect of stock-based awards on net income and earnings per Stapled Unit on a pro forma basis. For awards granted under the Company's Distribution Equivalent Plan, the principles of the fair value based method of accounting for stock-based compensation were applied and awards were accrued on a basis equal to actual distributions paid on the Company's issued and outstanding Stapled Units and are being charged to income as the underlying Stapled Unit options vest.

In October 2002, the CICA Accounting Standards Board activated a project that would require the recognition of stock-based compensation expenses using the fair value method for all employee stock-based compensation transactions. In this regard, an exposure draft was issued in December 2002 proposing amendments to Section 3870, requiring recognition of expenses for all employee stock-based compensation transactions for fiscal years beginning on or after January 1, 2004. In anticipation of the acceptance of the recommendations of this exposure draft, the Company has changed its policy of accounting for stock-based compensation and will recognize a stock-based compensation expense using the fair value method for all employee stock-based compensation transactions entered into on or after January 1, 2003, including both awards of Stapled Unit options and awards under the Distribution Equivalent Plan (see note 7). The Company has adopted the recommendations of the exposure draft on a prospective basis and has not applied the fair value based method of accounting to Stapled Unit options granted between January 1, 2002, and December 31, 2002, therefore, there has been no restatement of amounts reported in prior period financial statements.

### 3. Revolving Credit Facilities

On March 3, 2003, the Company completed and received short-term financing from a Canadian bank in the amount of \$40.0 million pursuant to an unsecured 364-day committed revolving facility due on March 2, 2004. Under this facility, funds are available to the Company in both Canadian and US dollars by way of adjusted prime rate-based loans and Canadian dollar bankers' acceptances.

As at March 31, 2003, drawings on available credit facilities included \$40.0 million under the 364-day facility and \$66.7 million under the Company's \$125.0 million unsecured revolving facility that is due June 30, 2004.

### 4. Debentures

	Maturity	As at March 31, 2003	As at December 31, 2002
7.0% debentures	October 1, 2007	\$ 130.0	\$ 130.0
6.5% debentures	March 3, 2003	-	106.5
		<b>130.0</b>	<b>236.5</b>
Less: Due within one year		-	(106.5)
		<b>\$ 130.0</b>	<b>\$ 130.0</b>

During the first quarter of 2003, the Company retired \$106.5 million aggregate principal amount of its 6.5% debentures when they matured on March 3, 2003.

# TIMBERWEST FOREST CORP.

## Notes to Unaudited Interim Consolidated Financial Statements For the three months ended March 31, 2003

### 5. Income Taxes

	Three months ended March 31	
	2003	2002
Current income tax expense		
Large corporation tax	\$ 0.2	\$ 0.2
Income tax benefit on interest on Series A Subordinate Notes charged directly to distributions	7.7	6.2
	7.9	6.4
Future income tax expense	0.9	1.0
	\$ 8.8	\$ 7.4

### 6. Earnings Available for Distribution per Stapled Unit and Components Thereof

	Three months ended March 31	
	2003	2002
<b>Net Earnings:</b>		
Net earnings	\$ 17.7	\$ 7.7
Less: Distributions on Series A Subordinate Notes	(20.5)	(20.4)
Tax benefit thereon	7.7	6.2
	(12.8)	(14.2)
Earnings (loss) attributable to common shares	4.9	(6.5)
Earnings available for distribution attributable to Series A Subordinate Notes	20.5	20.4
Earnings available for distribution attributable to Stapled Units	\$ 25.4	\$ 13.9
<b>Weighted Average Number of Stapled Units:</b>		
Basic weighted average number of Stapled Units	76,203,079	70,387,910
Incremental Stapled Units from potential exercise of options	89,031	200,364
Diluted weighted average number of Stapled Units	76,292,110	70,588,274
<b>Per Stapled Unit Amounts:</b>		
Basic and diluted earnings (loss) per common share	\$ 0.06	\$ (0.09)
Basic and diluted earnings available for distribution per Series A Subordinate Note	0.27	0.29
Basic and diluted earnings available for distribution per Stapled Unit	\$ 0.33	\$ 0.20

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

# TIMBERWEST FOREST CORP.

## Notes to Unaudited Interim Consolidated Financial Statements For the three months ended March 31, 2003

### 7. Stock-based Compensation Plans

Under the Company's Stapled Unit Option Plan, the Company may grant options for the purchase of Stapled Units to directors, officers or employees who are in active service or employment of the Company or of any of its subsidiaries. Prior to January 1, 2003, the Company's policy was that no compensation cost was recorded on stock-based compensation awards granted to employees under this plan. Effective January 1, 2003, the Company changed its policy of accounting for awards under this plan and now applies the principles of the fair value based method of accounting for all stock-based compensation transactions (see note 2). The Company has made this change in accounting policy on a prospective basis and has not applied the fair value based method of accounting to Stapled Unit options granted between January 1, 2002, and December 31, 2002, therefore, there has been no restatement of amounts reported in prior period financial statements. The compensation cost for the 55,200 Stapled Unit options granted during the 2002 fiscal year, determined using the fair value method of accounting, is immaterial and would not have resulted in an adjustment to the Company's net earnings and earnings per common share reported for the quarter ended March 31, 2003.

The compensation cost for the 267,047 Stapled Unit options granted under the Stapled Unit Option Plan between January 1, 2003, and March 31, 2003, determined using the fair value method of accounting for stock-based compensation, is \$285,000. This amount is amortized against income over the three-year vesting period of the underlying options, resulting in a charge against earnings for the three months ended March 31, 2003, of \$15,800. The fair value of each option grant was estimated at the grant date using the Black-Scholes option pricing model with the following average assumptions: distribution yield of 9.0%; expected volatility of 25.3%; risk-free interest rate of 4.24%; and expected option life of 5 years.

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. For awards granted under the supplemental Distribution Equivalent Plan, the Company applies the principles of the fair value based method of accounting for stock-based compensation. Awards are accrued on a basis equal to actual distributions paid on the Company's issued and outstanding Stapled Units and are charged to income as the underlying Stapled Unit options vest. For the three months ended March 31, 2003, \$0.2 million has been accrued for awards granted under this plan relating to the January 2003 distribution paid to unitholders and \$0.3 million has been amortized against income for the quarter.

During the quarter ended March 31, 2003, a total of 46,667 Stapled Unit options with an exercise price of \$8.91 were exercised, 267,047 Stapled Unit options with exercise prices ranging from \$11.90 to \$12.28 and exercisable for a period of five years from grant date were granted, and 5,267 options with an exercise price of \$13.03 were cancelled.

### 8. Forestry Revitalization Plan

In March 2003, the Government of BC (the "Crown") introduced its Forestry Revitalization Plan (the "Plan"), including enabling legislation through the new *Forest Revitalization Act*, the new *Forest and Range Practices Act*, and amendments to the existing *Forest Act*. The Plan provides for significant changes to Crown forest policy and to the existing allocation of Crown timber tenures to licensees. The changes prescribed in the Plan include the relaxing of minimum cut control regulations, the elimination of appurtenancy and timber processing regulations, more flexibility to consolidate and subdivide forest tenures, increased freedom to transfer forest tenures without restriction or penalty and a new market-based stumpage system. As well, licensees, including the Company, will be required to return 20% of their aggregate allowable annual cut to the Crown, with the first 200,000 m<sup>3</sup> exempt. The Plan states that approximately half of this volume will be redistributed to open up opportunities for woodlots, community forests and First Nations and the other half will be made available for public auction. The Crown has acknowledged that licensees will be fairly compensated for lost harvesting rights, for improvements on Crown land and for one-time costs associated with the termination of employees and contractors.

The effect of the timber take-back is expected to result in a reduction of approximately 200,000 m<sup>3</sup> of the Company's existing allowable annual cut on replaceable tenures. The effect of the Plan on the Company's financial position and results of operations cannot be determined at this time. The Company will record the effects of the Plan when they are determinable.

# TIMBERWEST FOREST CORP.

## Supplemental Information

Unaudited

Three months ended March 31

2003

2002

### Sales by Product

(in millions of dollars)

Logs	\$	103.8	\$	73.0
Lumber		16.6		12.7
Wood chips and other		3.6		2.5
Real estate		2.6		0.7

	\$	126.6	\$	88.9
--	----	-------	----	------

### Sales Volume

Logs (thousand m <sup>3</sup> )	919.4	649.8
Lumber (million fbm)	31.1	26.8

### Production Volume

Logs (thousand m <sup>3</sup> )	893.0	707.5
Lumber (million fbm)	35.5	26.0

### Earnings Before Interest, Taxes, Depreciation and Amortization (EBITDA)\*

(in millions of dollars)

Net earnings	\$	17.7	\$	7.7
Add:				
Interest expense		4.0		4.0
Income tax expense		8.8		7.4
Depreciation, depletion and amortization		2.6		2.6
Amortization of deferred financing costs		0.4		2.0

	\$	33.5	\$	23.7
--	----	------	----	------

\* 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.

# TIMBERWEST FOREST CORP.

## About TimberWest

TimberWest Forest Corp. is uniquely positioned as the largest owner of private forest lands in western Canada. The Company's 334,000 hectares, providing a sustainable annual harvest of 2.1 million to 2.5 million m<sup>3</sup> of logs, are largely located on Vancouver Island and contain some of the best coniferous forest growing sites in the world. The American Forest & Paper Association has certified that the Company is committed to managing these private lands according to sustainable forestry standards under its Sustainable Forestry Initiative (SFI)<sup>SM</sup> Program. TimberWest also owns annual Crown harvest rights of 1.2 million m<sup>3</sup> of logs, a lumbermill, and holds about 6,000 hectares of properties that are progressively being made available for higher uses.

## TimberWest Forest Corp.

Suite 2300, 1055 West Georgia Street  
PO Box 11101  
Vancouver, BC V6E 3P3  
Telephone: 604-654-4600

Investor Relations Contact:  
Bev Park  
Vice-President, Finance and  
Chief Financial Officer  
Telephone: 604-654-4600  
Facsimile: 604-654-4662  
Email: [invest@timberwest.com](mailto:invest@timberwest.com)

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

Visit us at our web site: [www.timberwest.com](http://www.timberwest.com)

