



# Q-1

2005

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**First Quarter  
Interim Report**

For the three months  
ended March 31, 2005



## TIMBERWEST FOREST CORP.

### To Our Unitholders,

TimberWest has begun the new year with all of our harvesting and road building functions contracted out, bringing our operating model into line with most other North American jurisdictions. This important initiative is expected to result in lower costs and improved flexibility, which will improve the competitiveness of the organization over time. Despite challenging weather conditions at the start of the year, we were pleased with how smoothly the transition to a contractor model progressed. This was due to the extensive planning and organization carried out by our timberland group, the caliber of employees throughout the organization who embraced this change, and a competent group of independent contractors. All in all, this has been a successful transition and we met all of our timelines.

The Company begins the year with positive financial results, generating \$23.9 million of distributable cash, or \$0.31 per Stapled Unit in the first quarter of 2005. This compares to \$27.7 million or \$0.36 per Stapled Unit for the same period of 2004. The results for the quarter include approximately \$8.1 million, or \$0.10 per Stapled Unit, of one time gains, including surplus equipment sales with the move to a contractor model and our settlement with the Provincial government on the tenure take-back for \$3.7 million.

Oversupply in the Japan lumber market, poor pulp markets and declining demand for cedar lumber in North America have resulted in log pricing in the domestic market dropping off significantly from the highs of last summer. Markets in the US were steady in the first quarter with fir and hemlock log prices holding up reasonably well, however cedar was in an oversupply situation during the quarter causing pricing to come under downward pressure. The Japanese market was generally stable during the quarter, but weakened through March. Our sales mix for the quarter was weaker than this time last year, which is reflected in average log sales realizations for the quarter being down approximately \$14 per m<sup>3</sup> from the comparative period in 2004. About 70% of this reduction in sales realizations was due to weaker species and end use sort mix. The Canadian dollar was approximately 7% stronger in 2005 compared to the same period in 2004, further exacerbating the pricing and mix issues.

However, our costs were also lower than this time last year, primarily as a result of lower stumpage. In addition, production costs are typically lower in the first quarter given the high proportion of low elevation logging that takes place at this time. Log production and quality is on pace with typical first quarter volumes, even in the first quarter of our new business model.

With oversupplied markets in Japan and the continuing softwood lumber dispute with the US, our Elk Falls sawmill did not generate positive cash in the quarter after being assessed the international price for logs. It did however manage to operate above its short run, cash shut down costs. In the near term, we expect both Japan and North American markets to be oversupplied with lumber. In Japan, lumber consumption remains steady and while lumber inventories have declined in recent months, it will take until the third quarter before supply and demand comes back into balance. In North America, lumber consumption remains strong but lumber inventories are high. This has resulted in near term price pressure, particularly for fir and green hemlock markets and we expect this to continue through the second quarter. As a result, we will be taking downtime at Elk Falls during the second quarter.

There are a few unusual cash flow items in our financial statements for the quarter. You will notice on the statement of distributable cash that there are \$26.8 million of proceeds from the sale of property, plant and equipment. This is largely the result of lease buyouts totalling \$17.0 million included in the \$17.8 million in additions to property, plant and equipment for the quarter. The Company bought this leased equipment from leasing companies and sold it and other company-owned logging equipment to our new contractors for \$21.4 million. Also included in the total proceeds of \$26.8 million is the compensation of \$3.7 million we received for the tenure taken back from TFL 47 and several Timber Licences. This take-back represented an immaterial reduction in AAC for TimberWest as the majority of the Company's take-back was assigned to TFL 46 which was sold in 2004. The compensation received was not only for the volume taken, but for improvements to the tenure that TimberWest had made over time.

Safety continues to be a focus for TimberWest. All of our contractors have rigorous safety standards to meet. TimberWest is satisfied with contractor operations' safety performance to date with the exception of one incident. Tragically, a fatality occurred at our contractor operation at Shoal Island during the quarter. This contractor's employee, Wayne Peet, had been a valued employee of the Company for many years and

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will be greatly missed by his family, friends and co-workers. TimberWest continues to closely monitor safety performance.

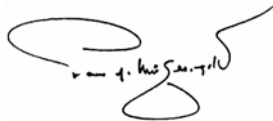
During the quarter Weyerhaeuser Company announced that it concluded a definitive agreement for the divestiture of its coastal BC assets – private timberland, public tenures and sawmills – with Brascan. As a strategic buyer, TimberWest was keenly interested in acquiring Weyerhaeuser's private timberlands. Our core business is private timberlands and the Weyerhaeuser properties are immediately adjacent to our own, providing synergistic benefits. In keeping with the overall strategic direction of the Company, we were not interested in acquiring additional sawmills or crown land logging operations on the coast of BC. The Company therefore bid on Weyerhaeuser's private timberlands in a strategic alliance with another BC-based company which bid on Weyerhaeuser's public land logging and sawmilling business. We believe this transaction provides validation of TimberWest's value and while it has not yet closed, we look forward to working with Brascan as a new participant in our coastal industry and exploring opportunities to add value to both of our asset bases going forward.

You will see in our financial statements that this is the first quarter we have presented the new GAAP requirements which disclose the subordinated debt component of our Stapled Units as a liability rather than equity. As we have discussed in previous quarters, absolutely nothing in our capital structure has changed. We will continue to report distributable cash as always. Going forward, we will also provide other financial information to you on a before and after adjustment basis to assist in reading our financial statements.

At this time, I am also pleased to announce TimberWest's next quarterly distribution of \$0.269 per Stapled Unit, payable on July 15, 2005 to unitholders of record on July 1, 2005. Since TimberWest's inception in July 1997, including the distribution paid on April 15, 2005, the Company has distributed in excess of \$587 million to its unitholders.

Let me conclude by saying TimberWest is continuing with its Operations Excellence strategy and the organization has plans for 2005 to improve performance in operations, forest management, sales and marketing and administration.

On behalf of the Board of Directors



Paul J. McElligott  
President and Chief Executive Officer

Vancouver, British Columbia  
April 28, 2005

# TIMBERWEST FOREST CORP.

## Management's Discussion and Analysis

### For the three months ended March 31, 2005 and 2004

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 2005. This discussion and analysis provides an overview of significant developments that have affected TimberWest's performance during the first quarter of 2005 relative to the first quarter of 2004, and that have affected the Company's financial position as at March 31, 2005, relative to December 31, 2004. 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 2004 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 April 22, 2005.

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>.

### Distributable Cash

<i>(in millions of dollars)</i>	<b>Three months ended March 31, 2005</b>	<b>Three months ended March 31, 2004</b>
Net earnings (loss)	\$ (2.4)	\$ 3.8
Interest on Series A Subordinate Notes owned by unitholders	20.8	20.6
Earnings available for distribution	18.4	24.4
Future income tax expense (recovery)	1.2	(0.8)
Earnings available for distribution before provision for future income taxes	19.6	23.6
Add (deduct):		
Depreciation, depletion and amortization	2.1	3.2
Proceeds from sale of property, plant and equipment	26.8	1.4
Gain on sale of property, plant and equipment	(6.8)	(0.5)
Additions to property, plant and equipment	(17.8)	(0.5)
Other non-cash items	—	0.5
	4.3	4.1
Distributable cash	\$ 23.9	\$ 27.7

### Per Stapled Unit amounts:

<i>(in dollars)</i>	<b>Three months ended March 31, 2005</b>	<b>Three months ended March 31, 2004</b>
<i>Basic and diluted earnings available for distribution before provision for future income taxes per weighted average Stapled Unit</i>	\$ 0.25	\$ 0.31
<i>Basic and diluted distributable cash per weighted average Stapled Unit</i>	\$ 0.31	\$ 0.36
<i>Cash distributions paid per Stapled Unit</i>	\$ 0.27	\$ 0.27

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Earnings available for distribution is comprised of consolidated net earnings (loss) 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 available for distribution to unitholders reflects earnings before this interest charge.

Distributable cash includes consolidated net earnings (loss), plus interest expensed on Series A Subordinate Notes owned by unitholders, plus non-cash income taxes, plus depreciation, depletion and amortization, plus proceeds from the sale of property, plant and equipment net of their gain (loss) on sale, less additions to property, plant and equipment and, from time to time, adjustments for other items deemed appropriate by the Board of Directors.

Earnings 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 the presentation of these measures will enhance an investor's understanding of the Company's operating performance. A reconciliation of net earnings as determined in accordance with GAAP and both earnings available for distribution and distributable cash is provided in the preceding table.

The following tables present a quarterly comparison of distributable cash generated, in total and on a per Stapled Unit basis:

	2005	2004	2003	2002	2001	2000
<b>Distributable Cash</b>						
<i>(in millions of dollars)</i>						
First quarter	\$ 23.9	\$ 27.7	\$ 25.7	\$ 21.2	\$ 25.9	\$ 28.4
Second quarter		43.5	4.7	10.6	26.7	28.2
Third quarter		35.9	12.0	34.1	14.1	14.1
Fourth quarter		18.1	9.0	24.2	16.8	18.5
	\$ 23.9	\$ 125.2	\$ 51.4	\$ 90.1	\$ 83.5	\$ 89.2
<b>Distributable Cash per Stapled Unit</b>						
<i>(in dollars)</i>						
First quarter	\$ 0.31	\$ 0.36	\$ 0.34	\$ 0.30	\$ 0.40	\$ 0.41
Second quarter		0.57	0.06	0.14	0.41	0.42
Third quarter		0.47	0.15	0.45	0.22	0.22
Fourth quarter		0.24	0.12	0.32	0.26	0.29
	\$ 0.31	\$ 1.64	\$ 0.67	\$ 1.21	\$ 1.29	\$ 1.34

## Quarterly Financial Highlights

TimberWest generated distributable cash of \$23.9 million or basic and diluted distributable cash of \$0.31 per weighted average Stapled Unit for the three months ended March 31, 2005, compared to distributable cash of \$27.7 million or basic and diluted distributable cash of \$0.36 per weighted average Stapled Unit for the same period in 2004. The decrease in distributable cash from the prior year period can be attributed to lower operating earnings in the first quarter of 2005, reflecting lower average realizations on log and lumber sales, offset in part by higher net proceeds on the sale of property, plant and equipment. Earnings available for distribution for the first quarter of 2005, before provision for future income taxes, were \$19.6 million or \$0.25 per basic and diluted weighted average Stapled Unit compared to \$23.6 million or \$0.31 per basic and diluted weighted average Stapled Unit for the same quarter in 2004. Sales for the first quarter of 2005 were \$98.6 million compared to sales of \$105.4 million reported for the first quarter of 2004. Operating earnings were \$17.3 million or 18% of sales for the first quarter of 2005 compared to \$28.0 million or 27% of sales for the same period in 2004. As noted previously, the year over year softening of the operating margin primarily reflects lower average realizations on log and lumber sales, which were off 13% and 15% compared to the same period last year, respectively. Earnings before interest, taxes, depreciation and amortization (EBITDA)<sup>1</sup> for the quarter ended March 31, 2005, were \$25.5 million or \$0.33 per basic and diluted weighted average Stapled Unit compared to \$31.1 million or \$0.41 per basic and diluted weighted average Stapled Unit for the same period in 2004. The quarter ended March 31, 2005 had a net

<sup>1</sup> EBITDA is a measure that does not have a standardized meaning prescribed by GAAP 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. A reconciliation of net earnings as determined in accordance with GAAP and EBITDA is provided in the supplemental information appended to this interim report.



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loss of \$2.4 million, equating to a basic and diluted net loss of \$0.03 per weighted average common share, compared to net earnings of \$3.8 million or basic and diluted net earnings of \$0.05 per weighted average common share for the same period in 2004.

### Highlights and Significant Transactions

#### ***Accounting Policy Change – Liabilities and equity***

Effective January 1, 2005, the Company was required to adopt an amendment to Canadian Institute of Chartered Accountants (CICA) Handbook Section 3860 – *Financial Instruments: Disclosure and Presentation*. Section 3860 establishes standards for the balance sheet presentation of financial instruments or their components as liabilities or equity.

The amendment to Section 3860 has resulted in a considerable change to the financial statement presentation of the components of the Company's Stapled Unit and the distributions paid thereon. Despite the effects of this required accounting change, the Company's financial condition and economic underpinnings remain unchanged. In addition, the calculation of distributable cash generated by the Company is not affected by this revision.

As a result of the amendment to Section 3860, the Series A Subordinate Note component of the Stapled Unit can no longer be classified as equity and is now presented as a liability on the Company's consolidated balance sheets. As at March 31, 2005, the reclassification from equity to liabilities was \$692.3 million. This accounting change has been applied on a retroactive basis, resulting in a \$690.5 million reclassification from equity to liabilities as at December 31, 2004.

In addition, interest payments on the Series A Subordinate Note component of the Stapled Unit can no longer be presented as a direct charge to retained earnings, on an after-tax basis, similar to dividends on common shares. The amendment to Section 3860 requires that these interest payments be reported, on a pre-tax basis, as an interest expense in the statement of operations. For the three months ended March 31, 2005, interest payments on the Series A Subordinate Notes of \$20.8 million (2004 – \$20.7 million) have been reported as an interest expense in the consolidated statements of operations.

Additional information on this issue is provided in this management's discussion and analysis under the heading "Accounting Policy Change".

#### ***Business Transformation***

TimberWest began 2005 with all of its harvesting and road building functions contracted out to stump-to-dump operators. Despite challenging weather conditions at the beginning of the year, the transition to a contractor workforce progressed smoothly.

The Company completed the final phase of the business transformation initiative early in the first quarter of 2005. This involved the buy-out of leases on Company-operated logging equipment for \$17.0 million, and the subsequent sale of this leased equipment and other Company-owned logging equipment to long-term contractors for proceeds of approximately \$21.4 million. Other income for the three months ended March 31, 2005 includes a gain on disposal of logging equipment of approximately \$4.4 million.

This important initiative is expected to result in lower costs and improved flexibility, both of which should improve the competitiveness of the organization over time.

#### ***Timber Reallocation Agreement***

In March 2005, the Company reached an agreement with the Province of British Columbia to compensate the Company for the loss of logging rights through the timber reallocation process under the Province's Forestry Revitalization Plan. Under the agreement, the Company's Crown tenures were reduced, including a 33,207 m<sup>3</sup> reduction to Tree Farm Licence 47 and a 2,252 hectare reduction to two Timber Licences held by the Company. These tenures will be reallocated by the Province to community forests, woodlots, First Nations and new entrepreneurs.

TimberWest received \$3.7 million in compensation for the loss of logging rights and for improvements made to these areas by the Company, including roads and bridges associated with the areas being reallocated from these tenures.

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## Cash Distribution

On April 28, 2005, TimberWest announced a distribution of \$0.269 per Stapled Unit, payable July 15, 2005, to unitholders of record on July 1, 2005. From inception to March 31, 2005, the Company has generated distributable cash of \$620.7 million while, including the April 15, 2005 distribution of \$20.8 million, the Company has paid out \$587.6 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, 2005, were \$72.6 million, down 8% from log sales of \$79.3 million for the quarter ended March 31, 2004. This decrease reflects the net effect of a 13% decrease in overall log sales realizations, averaging \$91 per m<sup>3</sup> for the first quarter of 2005, down from \$105 per m<sup>3</sup> for the comparative period in 2004. This is offset in part by a 5% increase in the volume of logs sold, with 0.79 million m<sup>3</sup> sold in the first quarter of 2005 compared with 0.75 million m<sup>3</sup> sold in the comparative period of 2004. Log sales to domestic market customers were \$37.1 million, down 19% from the comparative quarter in 2004, reflecting a 16% decrease in realizations to \$76 per m<sup>3</sup> from \$91 per m<sup>3</sup> in 2004, and a drop in domestic log sales volume to 0.49 million m<sup>3</sup> from 0.50 million m<sup>3</sup> in 2004. Export sales for the first quarter of 2005 were \$35.5 million, up 6% over the comparative period in 2004, reflecting the net effect of a 22% increase in export sales volume to 0.31 million m<sup>3</sup>, and a 13% decrease in average realizations to \$116 per m<sup>3</sup>. Lower realizations in the first quarter of 2005 reflect a number of factors, including: oversupply in the Japanese lumber market, poor pulp markets and declining demand for cedar lumber in North America placing downward pressure on log pricing; a weaker sales mix for the first quarter of 2005 compared to the prior year period, with a significant component of peewee and pulp sorts in the current year; and a Canadian dollar that was approximately 7% stronger in the current year compared to the same period in 2004.

The operating margin from timberland operations for the first quarter of 2005 averaged 30% of log sales, compared to 39% of log sales for the first quarter of 2004. The weaker results for 2005 reflect lower average sale realizations discussed previously, the effect of which have been offset in part by lower production costs in the quarter, coming in at \$58 per m<sup>3</sup>, compared to \$61 per m<sup>3</sup> for the comparative period in 2004. The decrease in production costs is primarily attributable to lower stumpage in the quarter due to lower harvests from public lands.

Lumber sales for the quarter ended March 31, 2005, of \$18.6 million were 7% lower than sales of \$20.0 million for the quarter ended March 31, 2004. This decrease reflects softening in lumber pricing resulting in lower average sales realizations for the first quarter of 2005, falling 15% to \$531 per m<sup>3</sup> from \$625 per m<sup>3</sup> for the comparative period in 2004. This was offset in part by a 9% increase in the volume of lumber sold, rising to 35.0 million board feet for the first quarter of 2005 from 32.0 million board feet for the comparative period in 2004. Oversupplied markets in Japan and the continuing softwood lumber dispute with the US contributed to the lumbermill operations failure to make a positive cash contribution in the quarter. Production at the lumbermill was up 17% over the comparative quarter in 2004, to 46.9 million board feet, reflecting the increase in sales volumes as well as improved processing recoveries compared to the prior year.

Wood chip sales for the three month period ended March 31, 2005, of \$2.8 million were the same as for the comparative period in 2004, reflecting comparable chip volumes and pricing.

Real estate activity for the first quarter of 2005 generated revenues of \$1.9 million compared to revenues of \$1.0 million for the first quarter of 2004. 2005 revenues are considered to be on track with the plan for the year, with the variance from the previous year reflecting the variable nature and timing of real estate sales activity.

## Financial Position

Current assets increased \$4.2 million to \$92.2 million at March 31, 2005, up from \$88.0 million as at December 31, 2004. Accounts receivable increased \$13.6 million to \$28.3 million at March 31, 2005, up from \$14.7 million at December 31, 2004. This increase is considered typical, as year-end accounts receivable are generally low due to reduced sales activity during the year-end holiday season. Inventory decreased \$6.9 million to \$55.3 million at March 31, 2005, down from \$62.2 million at the end of 2004. Log inventory value decreased \$12.9 million to \$41.2 million at March 31, 2005, reflecting log sales exceeding the volume of logs harvested during the first quarter of 2005. Lumber inventory increased \$6.1 million to \$12.9 million at March 31, 2005, reflecting a number of variables including fewer shipments in the quarter due to vessel scheduling, higher value lumber grades being processed

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and the processing of more kiln-dried and planer stock near the end of the quarter which have longer processing times.

Property, plant and equipment were \$1,330.2 million as at March 31, 2005, \$4.1 million less than as at December 31, 2004. Factors contributing to the decrease in this balance include additions to property, plant and equipment in the first quarter of 2005 of \$17.8 million, the sale of property, plant and equipment during the first quarter of 2005 for proceeds of \$26.8 million, and a provision for depreciation, depletion and amortization of \$1.9 million for the first three months of 2005. Capital additions and disposals were unusually high in the first quarter of 2005 as these figures included the cost of buying out leased logging equipment and the subsequent resale of this and other company-owned logging equipment to the Company's long-term contractors under the business transformation initiated in 2004.

Other assets were \$12.8 million at March 31, 2005, comparable to the balance of \$12.2 million at December 31, 2004. Other assets are comprised primarily of prepaid pension benefits and deferred debt issue costs.

Current liabilities as at March 31, 2004, were \$78.0 million, comparable to \$78.2 million as at December 31, 2004. Accounts payable and accrued liabilities increased \$8.1 million to \$43.6 million at March 31, 2005. Accounts payable and accrued liabilities at December 31, 2004 were at less than normal levels due to production-related curtailments late in the fourth quarter of 2004. The distribution payable at the end of the first quarter of 2005 of \$20.8 million is comparable to the distribution payable of \$20.7 million at December 31, 2004, reflecting a consistent per unit distribution and an increase in the number of Stapled Units outstanding due to the exercise of options for 205,329 Stapled Units during the first quarter of 2005.

On February 28, 2005, the Company completed and received an extension of short-term financing from a Canadian bank that was previously due on March 1, 2005. This financing consists of an unsecured demand bank guarantee facility in the amount of \$16.0 million and an unsecured 364-day committed revolving facility in the amount of \$40.0 million, both now due on June 1, 2005. Under the 364-day facility, funds are available to the Company in both Canadian and US dollars by way of adjusted prime rate-based loans, Canadian dollar bankers' acceptances and letters of credit or guarantee.

As at March 31, 2005, the Company had combined borrowings of \$13.6 million on its two \$40.0 million unsecured 364-day revolving facilities, a decrease of \$8.4 million from borrowings of \$22.0 million at December 31, 2004. In addition, similar to December 31, 2004, the Company had commitments of \$15.9 million at March 31, 2005, relating to outstanding letters of credit issued under its available credit facilities.

The Company is currently reviewing its options for refinancing, renewing or extending its short-term credit facilities.

As at March 31, 2005, long-term credit facilities available to the Company consisted of an unsecured revolving credit facility for \$125.0 million due on December 31, 2006. There were no borrowings on this facility at March 31, 2005 or at December 31, 2004. Long-term financial liabilities as at March 31, 2005, also included \$195.0 million aggregate principal amount of 7.0% unsecured senior debentures due October 1, 2007.

Other long-term liabilities at March 31, 2005, included a silviculture liability of \$2.8 million, a \$27.4 million liability relating to non-pension post retirement benefits and a future income tax liability of \$224.6 million. These balances are all comparable to balances as at December 31, 2004.

As noted previously, effective January 1, 2005, the Company was required to adopt an amendment to CICA Handbook Section 3860 – *Financial Instruments: Disclosure and Presentation*. As a result of this amendment to Section 3860, the Series A Subordinate Note component of the Company's Stapled Unit can no longer be presented as a component of equity and is now presented as a liability on the Company's consolidated balance sheets. As at March 31, 2005, this reclassification from equity to liabilities was \$692.3 million. Retroactive application of this accounting change has resulted in a \$690.5 million reclassification from equity to liabilities as at December 31, 2004. Additional information on this issue is provided in this management's discussion and analysis under the heading "Accounting Policy Change".

During the quarter ended March 31, 2005, 342,998 Stapled Unit options were granted and options to purchase 205,329 Stapled Units were exercised for proceeds of \$2.5 million. As at April 22, 2005, the Company had 1,272,040 granted and outstanding Stapled Unit option awards and 77,112,346 issued and outstanding Stapled Units.



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## Cash Flow and Liquidity

Cash used in operations before changes in non-cash working capital for the three months ended March 31, 2005, was \$5.5 million or \$0.07 per weighted average Stapled Unit compared to cash provided by operations before changes in non-cash working capital for the corresponding quarter in 2004 of \$4.7 million or \$0.06 per weighted average Stapled Unit. This result reflects the change in accounting policy for the Series A Subordinate Notes as described under "Accounting Policy Change" whereby interest thereon of \$20.8 million (three months ended March 31, 2004 – \$20.6 million) is now presented as a use of cash flows under operating activities rather than under financing activities as a distribution. Cash provided by operations before changes in non-cash working capital and before distributions to unitholders was \$15.3 million, or \$0.20 per Stapled Unit, and \$25.3 million, or \$0.33 per Stapled Unit, for the first quarter of 2005 and 2004, respectively. During the first quarter of 2005, non-cash working capital decreased by \$1.6 million compared to a \$0.4 million increase reported for the same period in 2004. The current year decrease reflects the net effect of a decrease in inventory and an increase in accounts payable and accrued liabilities, offset in part by an increase in accounts receivable, compared to balances at December 31, 2004.

Net cash used in financing activities during the first quarter of 2005 was \$5.9 million compared to \$5.1 million used in financing activities in the comparative period of 2004. During the three months ended March 31, 2005, the Company issued 205,329 Stapled Units for net proceeds of \$2.5 million on the exercise of Stapled Unit options, compared to the issuance of 150,200 Stapled Units for net proceeds of \$1.9 million on the exercise of Stapled Unit options in the comparative period in 2004. In the first quarter of 2005, \$8.4 million was applied to reduce amounts borrowed on revolving credit facilities compared to \$7.0 million applied to revolving credit facilities in the comparative period in 2004.

Net cash provided by investing activities during the first quarter of 2005 was \$8.2 million compared to net cash provided by investing activities of \$0.8 million for the same quarter of 2004. The variance from 2004 can be attributed to transactions related to the business transformation initiative, including capital additions in the first quarter of 2005 of \$17.0 million for the buy-out of leases on company-operated logging equipment which was subsequently sold to the Company's new long-term contractors. Proceeds from the sale of property, plant and equipment received in the first quarter of 2005 included approximately \$21.4 million in proceeds from the sale of both leased and company-owned logging equipment, \$3.7 million in proceeds received in connection with the timber reallocation agreement with the Province that was finalized in the quarter and \$1.7 million in proceeds on the sale of higher use properties.

As at March 31, 2005, TimberWest's total debt<sup>2</sup> outstanding was \$208.6 million compared to total debt outstanding of \$217.0 million as at December 31, 2004. The Company's consolidated debt-to-total capitalization ratio<sup>2</sup> as at March 31, 2005 was 19:81, the same as at December 31, 2004. Total debt facilities available to the Company as at March 31, 2005 were \$416.0 million, comprised of \$16.0 million available under the demand bank guarantee facility due June 1, 2005, \$40.0 million available under the 364-day revolving facility due May 25, 2005, \$40.0 million available under the 364-day revolving facility due June 1, 2005, \$125.0 million available under the revolving credit facility maturing on December 31, 2006 and \$195.0 million of 7.0% debentures maturing on October 1, 2007.

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<sup>2</sup> Total debt and the debt-to-total capitalization ratio are measures that do not have a standardized meaning prescribed by GAAP and may not be comparable to similar measures presented by other companies. As the Company's Series A Subordinate Notes trade only as part of the Company's equity instrument, the Stapled Unit, they are not included in the Company's definition of debt. Management believes that the presentation of these measures will enhance an investor's understanding of the Company's financial resources and capital structure.

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## Quarterly Financial 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 unaudited interim consolidated financial statements that have been prepared on the same basis as the 2004 annual audited consolidated financials statements, except for the change in accounting policy for the Series A Subordinate Notes and interest thereon as described under "Accounting Policy Change". 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.

<i>(in millions of dollars, except per common share and per Stapled Unit amounts)</i>	2003			2004				2005
	Q2	Q3	Q4	Q1	Q2	Q3	Q4	Q1
Sales	\$ 113.3	\$ 105.0	\$ 96.3	\$ 105.4	\$ 136.8	\$ 119.9	\$ 114.9	\$ 98.6
Operating earnings	\$ 10.4	\$ 12.0	\$ 5.8	\$ 28.0	\$ 28.4	\$ 23.0	\$ 15.0	\$ 17.3
Net earnings (loss) before extraordinary item	\$ (14.2)	\$ (10.9)	\$ (19.7)	\$ 3.8	\$ 8.5	\$ 3.6	\$ (1.2)	\$ (2.4)
Extraordinary item, net of applicable income taxes	\$ –	\$ –	\$ –	\$ –	\$ –	\$ 9.0	\$ –	\$ –
Net earnings (loss)	\$ (14.2)	\$ (10.9)	\$ (19.7)	\$ 3.8	\$ 8.5	\$ 12.6	\$ (1.2)	\$ (2.4)
Earnings available for distribution	\$ 6.4	\$ 9.6	\$ 0.8	\$ 24.4	\$ 29.1	\$ 33.2	\$ 19.5	\$ 18.4
Earnings available for distribution before provision for future income taxes	\$ 6.4	\$ 8.2	\$ 1.3	\$ 23.6	\$ 29.0	\$ 33.0	\$ 13.2	\$ 19.6
Distributable cash before extraordinary item	\$ 4.7	\$ 12.0	\$ 9.0	\$ 27.7	\$ 43.5	\$ 21.9	\$ 18.1	\$ 23.9
Distributable cash from extraordinary item	\$ –	\$ –	\$ –	\$ –	\$ –	\$ 14.0	\$ –	\$ –
Distributable cash	\$ 4.7	\$ 12.0	\$ 9.0	\$ 27.7	\$ 43.5	\$ 35.9	\$ 18.1	\$ 23.9
Distributions paid	\$ 20.5	\$ 20.6	\$ 20.5	\$ 20.5	\$ 20.6	\$ 20.6	\$ 20.6	\$ 20.7
<i>\$ per common share</i> <sup>3</sup>								
Basic and diluted net earnings (loss) before extraordinary item	\$ (0.19)	\$ (0.14)	\$ (0.26)	\$ 0.05	\$ 0.11	\$ 0.05	\$ (0.02)	\$ (0.02)
Extraordinary item	\$ –	\$ –	\$ –	\$ –	\$ –	\$ 0.11	\$ –	\$ –
Basic and diluted net earnings (loss) after extraordinary item	\$ (0.19)	\$ (0.14)	\$ (0.26)	\$ 0.05	\$ 0.11	\$ 0.16	\$ (0.02)	\$ (0.02)
<i>\$ per Stapled Unit</i> <sup>3</sup>								
Basic and diluted earnings available for distribution	\$ 0.08	\$ 0.13	\$ 0.01	\$ 0.32	\$ 0.38	\$ 0.43	\$ 0.25	\$ 0.25
Basic and diluted earnings available for distribution before provision for future income taxes	\$ 0.08	\$ 0.11	\$ 0.02	\$ 0.31	\$ 0.38	\$ 0.43	\$ 0.17	\$ 0.25
Basic and diluted distributable cash before extraordinary item	\$ 0.06	\$ 0.15	\$ 0.12	\$ 0.36	\$ 0.57	\$ 0.29	\$ 0.24	\$ 0.31
Basic and diluted distributable cash from extraordinary item	\$ –	\$ –	\$ –	\$ –	\$ –	\$ 0.18	\$ –	\$ –
Basic and diluted distributable cash	\$ 0.06	\$ 0.15	\$ 0.12	\$ 0.36	\$ 0.57	\$ 0.47	\$ 0.24	\$ 0.31
Distributions paid	\$ 0.27	\$ 0.27	\$ 0.27	\$ 0.27	\$ 0.27	\$ 0.27	\$ 0.27	\$ 0.27

<sup>3</sup> 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.



# TIMBERWEST FOREST CORP.

## Accounting Policy Change

### *Liabilities and equity:*

Effective January 1, 2005, the Company was required to adopt an amendment to CICA Handbook Section 3860 – *Financial Instruments: Disclosure and Presentation*. Section 3860 establishes standards for the balance sheet presentation of financial instruments or their components as liabilities or equity. The amendment to Section 3860 requires obligations that may be settled at the issuer's option by a variable number of the issuer's own equity instruments to be presented as liabilities. This amendment is effective for the Company's 2005 fiscal year and has been adopted on a retroactive basis.

The amendment to Section 3860 has resulted in a considerable change to the financial statement presentation of the components of the Company's Stapled Unit and the distributions paid thereon. Despite the effects of this required accounting change, the Company's financial condition and economic underpinnings remain unchanged. In addition, the calculation of distributable cash generated by the Company is not affected by this revision.

The Company's Stapled Units are a unique equity instrument, consisting of one common share, 100 preferred shares and approximately \$8.98 face amount of Series A Subordinate Notes. These components are "stapled" together as a single unit and trade together on the Toronto Stock Exchange as Stapled Units. Components cannot be transferred except with each other as part of a Stapled Unit. The Company has historically classified all components of the Stapled Unit as equity on its balance sheet as the Company's Subordinate Notes have a "Common and/or Preferred Shares Payment Election". This election provides the Company with the option to satisfy its obligation to pay any interest on the Subordinate Notes by delivering common and/or preferred shares, and with the option to pay the principal amount of the outstanding Subordinate Notes by delivering common shares.

Given that the number of shares required to retire the Subordinate Note component is not fixed, the Series A Subordinate Note component of the Stapled Unit is no longer classified as equity and is now presented as a liability on the Company's consolidated balance sheets. As at March 31, 2005, the reclassification from equity to liabilities was \$692.3 million (December 31, 2004 – \$690.5 million).

Further, holders of the Company's Stapled Units are entitled to annual interest payments on the Subordinate Note component of approximately \$1.08 per Stapled Unit. For the same reason that the Subordinate Note component was previously classified as equity on the Company's consolidated financial statements, interest payments on Stapled Units have historically been recorded as a distribution to unitholders and charged directly to retained earnings, on an after-tax basis, similar to dividends on common shares. The amendment to Section 3860 requires that the interest on the Series A Subordinate Notes paid to unitholders be reported, on a pre-tax basis, as interest expense in the statement of operations. This revision also requires the tax benefit provided by the distributions to be reported as a component of the income tax provision in the statement of operations. For the three months ended March 31, 2005, interest payments on the Series A Subordinate Notes of \$20.8 million (2004 – \$20.7 million) have been reported as an interest expense in the consolidated statements of operations and the income tax benefit thereon of \$7.4 million (2004 – \$7.3 million) have been reported as a reduction in the income tax expense in the consolidated statements of operations, whereas both had previously been reported in retained earnings.

## Outlook

TimberWest continues to approach 2005 with caution. Economic reports to date are mixed on the strength of the US housing market for the balance of the year and with housing starts for March 2005 showing some decline, there is concern that housing starts may drop further as the year advances. Such a situation would result in an oversupply of logs and lumber in that market, thereby further depressing prices. The Company expects that fir and hemlock log prices will continue to be stable in this market throughout the second quarter. While cedar logs have been oversupplied in the US Pacific Northwest, volumes and pricing are expected to recover somewhat in the second quarter of the year.

While log prices in Japan are holding up reasonably well, Japanese sawmillers continue to struggle to maintain profitability. In conjunction with a weaker Yen, this situation is expected to place downward pressure on log pricing in the second quarter. With depressed conditions in the coastal sawmilling industry, it is unlikely that prices in the BC coastal market will improve in the near term.

TimberWest expects both Japan and North American lumber markets to remain oversupplied in the near term. In Japan, lumber consumption remains steady and while lumber inventories have declined in recent months, it will take until the third quarter before supply and demand comes back into balance. In North America, lumber consumption remains strong but lumber inventories are high. This has resulted in near term price pressure,



## TIMBERWEST FOREST CORP.

particularly for fir and green hemlock markets and we expect this to continue through the second quarter. As a result, we will be taking downtime at Elk Falls during the second quarter.

The Company is off to a good start with respect to production volumes and costs. Up to March 2005 there had been concern of an early fire season, however, a stretch of wet weather and some snow in early April in our operating region has tempered this view. As a result, the Company expects a normal pattern of production for the year and expects its production costs to remain in line with 2004 costs.

The Company expects 2005 capital expenditures to be lower than 2004 and anticipates real estate sales to be about the same level as reported in 2004.

TimberWest expects to generate sufficient distributable cash in the year to fund its 2005 cash distributions.

*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, harvesting fee and trade policy changes and other actions by governmental authorities, the ability to implement business strategies and pursue business opportunities, labour relations, weather conditions, forest fires, insect infestation, disease and other natural phenomena and other risks and uncertainties described in TimberWest's public filings with securities regulatory authorities.*



# TIMBERWEST FOREST CORP.

## Notice

The accompanying unaudited interim consolidated financial statements of TimberWest Forest Corp. (the "Company") have not been reviewed by the Company's auditors.

# TIMBERWEST FOREST CORP.

## Consolidated Statements of Operations

(in millions of dollars)  
Unaudited

	Three months ended March 31, 2005	Three months ended March 31, 2004 (restated – note 2)
Sales	\$ 98.6	\$ 105.4
Operating costs and expenses:		
Cost of sales	75.9	71.0
Selling, administrative and other	3.5	3.5
Depreciation, depletion and amortization	1.9	2.9
	<b>81.3</b>	<b>77.4</b>
Operating earnings	17.3	28.0
Interest expense:		
Series A Subordinate Notes owned by unitholders (note 2)	20.8	20.6
Long-term debt	3.1	3.4
Short-term debt	0.5	0.7
	<b>24.4</b>	<b>24.7</b>
Amortization of deferred financing costs	0.2	0.3
Other income (note 3)	(6.3)	(0.2)
	<b>18.3</b>	<b>24.8</b>
Earnings (loss) before income taxes	(1.0)	3.2
Income tax expense (recovery) (note 4)	1.4	(0.6)
Net earnings (loss)	\$ (2.4)	\$ 3.8
<i>Basic and diluted net earnings (loss) per common share (note 5)</i>	\$ (0.03)	\$ 0.05

## Consolidated Statements of Retained Earnings

(in millions of dollars)  
Unaudited

	Three months ended March 31, 2005	Three months ended March 31, 2004 (restated – note 2)
Retained earnings, beginning of period	\$ 28.4	\$ 4.7
Net earnings (loss) for the period	(2.4)	3.8
Retained earnings, end of period	\$ 26.0	\$ 8.5

See accompanying notes to unaudited interim consolidated financial statements.

# TIMBERWEST FOREST CORP.

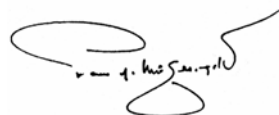
## Consolidated Balance Sheets

(in millions of dollars)

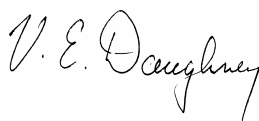
	As at March 31, 2005 <i>Unaudited</i>	As at December 31, 2004 (restated – note 2)
<b>Assets</b>		
Current assets:		
Cash	\$ —	\$ 1.6
Accounts receivable	28.3	14.7
Inventories	55.3	62.2
Prepaid expenses and other current assets	5.6	5.7
Future income taxes	3.0	3.8
	92.2	88.0
Property, plant and equipment, net (note 6)	1,330.2	1,334.3
Other assets	12.8	12.2
	\$ 1,435.2	\$ 1,434.5
<b>Liabilities and Unitholders' Equity</b>		
Current liabilities:		
Revolving credit facilities (note 7)	\$ 13.6	\$ 22.0
Accounts payable and accrued liabilities	43.6	35.5
Distribution payable	20.8	20.7
	78.0	78.2
Debentures	195.0	195.0
Long-term silviculture liability	2.8	2.8
Non-pension post-retirement benefits	27.4	27.1
Future income taxes	224.7	224.3
	527.9	527.4
Series A Subordinate Notes owned by unitholders (note 2 and note 8)	692.3	690.5
	1,220.2	1,217.9
Unitholders' equity:		
Share capital, consisting of common and preferred shares (note 8)	188.5	187.8
Contributed surplus	0.5	0.4
Retained earnings	26.0	28.4
	215.0	216.6
	\$ 1,435.2	\$ 1,434.5

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, 2005	Three months ended March 31, 2004 (restated – note 2)
<b>Cash provided by (used in):</b>		
<b>Operating activities:</b>		
Net earnings (loss)	\$ (2.4)	\$ 3.8
Items not involving cash:		
Depreciation, depletion and amortization	2.1	3.2
Gain on sale of property, plant and equipment	(6.8)	(0.5)
Future income tax expense (recovery)	1.2	(0.8)
Other non-cash items	0.4	(1.0)
	(5.5)	4.7
Changes in non-cash working capital:		
Accounts receivable	(13.6)	(11.2)
Inventories	6.9	(13.9)
Prepaid expenses and other working capital	0.1	1.6
Accounts payable and accrued liabilities	8.1	23.0
Distribution payable	0.1	0.1
	(3.9)	4.3
<b>Financing activities:</b>		
Issuance of Stapled Units on exercise of options:		
Series A Subordinate Notes	1.8	1.3
Share capital	0.7	0.6
	2.5	1.9
Revolving credit facilities	(8.4)	(7.0)
	(5.9)	(5.1)
<b>Investing activities:</b>		
Proceeds from sale of property, plant and equipment	26.8	1.4
Additions to property, plant and equipment	(17.8)	(0.5)
Other assets	(0.8)	(0.1)
	8.2	0.8
<b>Increase (decrease) in cash and cash equivalents</b>	<b>(1.6)</b>	<b>–</b>
<b>Cash and cash equivalents, beginning of period</b>	<b>1.6</b>	<b>–</b>
<b>Cash and cash equivalents, end of period</b>	<b>\$ –</b>	<b>\$ –</b>
<b>Supplemental information:</b>		
Interest on Series A Subordinate Notes paid to unitholders	\$ 20.7	\$ 20.5
Other interest paid	\$ 0.4	\$ 0.8
Income taxes paid	\$ 0.1	\$ 0.2

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, 2005 and 2004

*Financial figures presented in the tables that follow are 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 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, 2004, except for the accounting policy change as described in note 2.

### 2. Change in Accounting Policy

Liabilities and equity:

Effective January 1, 2005, the Company was required to adopt an amendment to CICA Handbook Section 3860 – *Financial Instruments: Disclosure and Presentation*. Section 3860 establishes standards for the balance sheet presentation of financial instruments or their components as liabilities or equity. The amendment to Section 3860 requires obligations that may be settled at the issuer's option by a variable number of the issuer's own equity instruments to be presented as liabilities. This amendment is effective for the Company's 2005 fiscal year and has been adopted on a retroactive basis.

The Company's Stapled Units are a unique equity instrument, consisting of one common share, 100 preferred shares and approximately \$8.98 face amount of Series A Subordinate Notes. These components are "stapled" together as a single unit and trade together on the Toronto Stock Exchange as Stapled Units. Components cannot be transferred except with each other as part of a Stapled Unit. The Company has historically classified all components of the Stapled Unit as equity on its balance sheet as the Company's Subordinate Notes have a "Common and/or Preferred Shares Payment Election". This election provides the Company with the option to satisfy its obligation to pay any interest on the Subordinate Notes by delivering common and/or preferred shares, and with the option to pay the principal amount of the outstanding Subordinate Notes by delivering common shares.

Given that the number of shares required to retire the Subordinate Note component is not fixed, the Series A Subordinate Note component of the Stapled Unit is no longer classified as equity and is now presented as a liability on the Company's consolidated balance sheets. As at March 31, 2005, the reclassification from equity to liabilities was \$692.3 million (December 31, 2004 – \$690.5 million).

Further, holders of the Company's Stapled Units are entitled to annual interest payments on the Subordinate Note component of approximately \$1.08 per Stapled Unit. For the same reason that the Subordinate Note component was previously classified as equity on the Company's consolidated financial statements, interest payments on Stapled Units have historically been recorded as a distribution to unitholders and charged directly to retained earnings, on an after-tax basis, similar to dividends on common shares. The amendment to Section 3860 requires that the interest on Series A Subordinate Notes paid to unitholders be reported, on a pre-tax basis, as interest expense in the statement of operations. This revision also requires the tax benefit provided by the distributions to be reported as a component of the income tax provision in the statement of operations. For the three months ended March 31, 2005, interest payments on the Series A Subordinate Notes of \$20.8 million (2004 – \$20.7 million) have been reported as an interest expense in the consolidated statements of operations and the income tax benefit thereon of \$7.4 million (2004 – \$7.3 million) have been reported as a reduction in the income tax expense in the consolidated statements of operations, whereas both had previously been reported in retained earnings.

# TIMBERWEST FOREST CORP.

## Notes to Unaudited Interim Consolidated Financial Statements

For the three months ended March 31, 2005 and 2004

### 3. Business Transformation

The Company completed the final phase of its business transformation initiative early in the first quarter of 2005, with the buy-out of leases on Company operated logging equipment for \$17.0 million, and the subsequent sale of this leased equipment and other company-owned logging equipment to long-term contractors for proceeds of approximately \$21.4 million. Other income for the three months ended March 31, 2005 includes a gain on disposal of the logging equipment of approximately \$4.4 million.

### 4. Income Taxes

	Three months ended March 31, 2005	Three months ended March 31, 2004 (restated – note 2)
Current income tax expense – large corporation tax	\$ 0.2	\$ 0.2
Future income tax expense (recovery)	1.2	(0.8)
	<b>\$ 1.4</b>	<b>\$ (0.6)</b>

### 5. Earnings per Share

	Three months ended March 31, 2005	Three months ended March 31, 2004 (restated – note 2)
Net earnings (loss)	\$ (2.4)	\$ 3.8
Basic weighted average number of common shares	76,988,877	76,308,086
Incremental common shares from potential exercise of options	211,659	106,660
Diluted weighted average number of common shares	77,200,536	76,414,746
Basic and diluted net earnings (loss) per common share	\$ (0.03)	\$ 0.05

### 6. Property, Plant and Equipment

Property, plant and equipment at December 31, 2004 includes private timberlands with a carrying value of \$1,214.0 million. This amount includes a valuation increase adjustment of \$389.8 million recorded in the year ended December 31, 2000 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.

# TIMBERWEST FOREST CORP.

## Notes to Unaudited Interim Consolidated Financial Statements

For the three months ended March 31, 2005 and 2004

### 7. Revolving Credit Facilities

On February 28, 2005, the Company completed and received an extension of short-term financing from a Canadian bank that was previously due on March 1, 2005. This financing consists of an unsecured demand bank guarantee facility in the amount of \$16.0 million and an unsecured 364-day committed revolving facility in the amount of \$40.0 million, both now due on June 1, 2005. Under the 364-day facility, funds are available to the Company in both Canadian and US dollars by way of adjusted prime rate-based loans, Canadian dollar bankers' acceptances and letters of credit or guarantee.

As at March 31, 2005, the Company had combined borrowings of \$13.6 million on its two \$40.0 million unsecured 364-day revolving facilities, and commitments of \$15.9 million relating to outstanding letters of credit issued under its available credit facilities. As at March 31, 2005, there were no borrowings on the Company's \$125.0 million unsecured revolving credit facility.

### 8. Stapled Units

	Number	Stapled Unit Components		Total
		Series A Subordinate Notes	Share Capital (consisting of common and preferred shares)	
Three months ended March 31, 2004:				
Balance, December 31, 2003	76,246,122	\$ 684.6	\$ 186.0	\$ 870.6
Issuance of Stapled Units on exercise of options	150,200	1.3	0.6	1.9
<b>Balance, March 31, 2004</b>	<b>76,396,322</b>	<b>\$ 685.9</b>	<b>\$ 186.6</b>	<b>\$ 872.5</b>
Three months ended March 31, 2005:				
Balance, December 31, 2004	76,907,017	\$ 690.5	\$ 187.8	\$ 878.3
Issuance of Stapled Units on exercise of options	<b>205,329</b>	<b>1.8</b>	<b>0.7</b>	<b>2.5</b>
<b>Balance, March 31, 2005</b>	<b>77,112,346</b>	<b>\$ 692.3</b>	<b>\$ 188.5</b>	<b>\$ 880.8</b>

The Company issues equity by way of Stapled Units, each Stapled Unit consisting of approximately \$8.98 face amount of Series A Subordinate Notes, 100 preferred shares and one common share. The securities comprising a Stapled Unit trade together as Stapled Units and cannot be transferred except with each other as part of a Stapled Unit until the date of maturity of the Series A Subordinate Notes or the payment of the principal amount of the Series A Subordinate Notes following an event of default and expiration of a remedies blockage period.

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 \$1.077456788 per annum (12%). The Series A Subordinate Notes are unsecured and subordinate to all credit facilities and debentures. 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 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, 2005 and 2004

### 9. Employee Benefits

The Company, through its subsidiaries, maintains pension plans that include defined benefit and defined contribution segments available to all salaried employees and to hourly employees not covered by union pension plans. For the three months ended March 31, 2005, the Company recorded an expense of \$0.4 million for pension benefit costs (2004 – \$0.7 million) and made cash payments of \$0.8 million to fund current and future service costs (2004 – \$0.3 million).

The Company also provides non-pension benefits consisting of group life insurance and medical benefits to eligible retired employees, which the Company funds on an as-incurred basis. For the three months ended March 31, 2005, the Company recorded an expense of \$0.9 million for non-pension benefit costs (2004 – \$0.9 million) and made cash payments of \$0.5 million to fund current and future benefit costs (2004 – \$0.4 million).

### 10. 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. During the quarter ended March 31, 2005, 342,998 Stapled Unit options were granted at an exercise price of \$15.80 (2004 – 313,220 Stapled Unit options were granted at an average exercise price of \$12.21).

The Company has applied the fair value method of accounting for Stapled Unit option grants awarded on or after January 1, 2003. The fair value of each option granted was estimated on the date of grant using the Black-Scholes option pricing model using the following weighted average assumptions:

	2005	2004
Risk-free interest rate	3.5%	3.5%
Expected life (years)	5.0	5.0
Expected volatility	20.0%	20.6%
Dividend yield	6.8%	8.6%
Number of options granted	342,998	313,220
Fair value of each option granted	\$1.31	\$0.86

The compensation cost for the 342,998 Stapled Unit options granted between January 1, 2005 and March 31, 2005 is \$449,000 (2004 – 313,220 Stapled Unit options were granted with a compensation cost of \$269,000). The compensation cost of Stapled Unit option awards is amortized against earnings over the three-year vesting period of the underlying options and an expense of \$65,000 has been recognized in net earnings for the three month period ended March 31, 2005 (2004 – \$33,000) for option awards made during fiscal 2005, 2004 and 2003, with a corresponding credit to contributed surplus.

Had the Company used the fair value method to account for Stapled Unit options granted during 2002, there would have been no adjustment to net earnings and earnings per common share reported for the three month periods ended March 31, 2005 and 2004, as the stock-based compensation cost related to these options was nominal.

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# TIMBERWEST FOREST CORP.

## Notes to Unaudited Interim Consolidated Financial Statements

For the three months ended March 31, 2005 and 2004

### 10. Stock-based Compensation Plans (continued)

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. The Company applies the principles of the fair value-based method of accounting for stock-based compensation to awards granted under this plan. 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, 2005, \$0.3 million has been accrued for awards granted under this plan (2004 – \$0.3 million) and \$0.3 million has been amortized against earnings for the quarter (2004 – \$0.3 million).

During the three months ended March 31, 2005, a total of 205,329 Stapled Unit options with an average exercise price of \$12.27 were exercised and 23,207 Stapled Unit options with an average exercise price of \$14.03 were cancelled (2004 – 150,200 Stapled Unit options with an average exercise price of \$12.59 were exercised and no options were cancelled).

### 11. Comparative Figures

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

# TIMBERWEST FOREST CORP.

## Supplemental Information

Unaudited

Three months ended  
March 31, 2005

Three months ended  
March 31, 2004

### Sales by Product

(in millions of dollars)

Log sales		
Domestic	\$ 37.1	\$ 45.8
Export – Asia	24.0	23.5
Export – US	11.5	10.0
Total log sales	72.6	79.3
Lumber	18.6	20.0
Wood chips and other	5.5	5.1
Real estate	1.9	1.0
	\$ 98.6	\$ 105.4

### Sales Volume

Logs (million m<sup>3</sup>)

Domestic	0.5	0.5
Export – Asia	0.2	0.2
Export – US	0.1	0.1
	0.8	0.8

Lumber (million fbm)

35.0      32.0

### Log Sales Mix (million m<sup>3</sup>)

Fir	0.4	0.5
Hembal	0.2	0.1
Cedar	0.1	0.1
Other	0.1	0.1
	0.8	0.8

### Production Volume

Logs (million m<sup>3</sup>)

Public tenures	0.1	0.3
Private timberlands	0.6	0.6
	0.7	0.9

Lumber (million fbm)

46.9      40.2

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

(in millions of dollars)

Net earnings (loss)	\$ (2.4)	\$ 3.8
Add (deduct):		
Interest on Series A Subordinate Notes paid to unitholders	20.8	20.6
Interest on long-term debt	3.1	3.4
Interest on short-term debt	0.5	0.7
Income tax expense (recovery)	1.4	(0.6)
Depreciation, depletion and amortization	1.9	2.9
Amortization of deferred financing costs	0.2	0.3
EBITDA	\$ 25.5	\$ 31.1

\* 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.

# 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 2.5 million m<sup>3</sup> of logs, are located on Vancouver Island and predominantly support the growth of Douglas fir forests, a premium species used for structural purposes. TimberWest runs fully-contracted harvesting operations. With approximately 70% of the Company's logging now being done in second-growth stands, TimberWest leads the industry in the harvest of second-growth timber. Third party auditors have certified that the management of the Company's private forest land conforms to the objectives and performance measures of the American Forest and Paper Association's Sustainable Forestry Initiative (SFI<sup>®</sup>). The computation of the Company's recently revised long-run sustainable yield will be validated by the Company's external SFI<sup>®</sup> auditor, KPMG Performance Registrar Inc., in the first half of 2005. TimberWest also owns renewable Crown harvest rights to 0.8 million m<sup>3</sup> of logs per year and operates a lumbermill located near Campbell River, BC. In addition, approximately 6,000 hectares of the Company's private forest lands have been identified as having greater value as real estate properties and 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  
Facsimile: 604-654-4571

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)

