



TimberWest

Industry leader in second-growth harvesting

Q-1
2006

First Quarter
Interim Report
For the three months
ended March 31, 2006

www.timberwest.com
TSX: TWF.UN



TIMBERWEST FOREST CORP.

To Our Unitholders,

I am pleased to report that TimberWest has had a strong start to the 2006 fiscal year, generating \$31.5 million of distributable cash, or \$0.41 per Stapled Unit, in the first quarter. This compares to \$23.9 million of distributable cash, or \$0.31 per unit, in the same period last year, \$0.10 per unit of which came from one-time gains in 2005. Despite the strong Canadian dollar, which averaged US/CDN \$0.87 for the quarter, prices in all of our markets were stable compared to the equivalent prior year period. In summary, log production and sales volumes were high, export sales were strong, and the real estate market remained buoyant on Vancouver Island.

The Company finished the quarter with its lowest net debt level ever at \$205 million. Strong distributable cash results and a low investment in working capital were key factors affecting our financial condition at the end of the quarter.

Log sales revenue was higher than the same quarter last year by \$13 million. Sales realizations were approximately \$5 per m³ higher primarily due to a richer sales mix. Pricing levels were supported this quarter by a lower supply of logs in our BC, US and Japan market segments. Weather conditions were a key driver behind the limited supply. Many competitors harvested lower volumes due to snow; however, TimberWest's timberlands include many lower elevation areas that can be logged during the winter months and we used this flexibility on our private lands to harvest volumes ahead of our normal levels. The harvest mix at lower elevations is predominantly higher-value Douglas fir, particularly second-growth fir, boosting overall sales realizations.

Log sales volumes were higher in the first quarter of 2006, with export shipments increasing by 115,400 m³ compared to the same period in 2005. Contributing to this increase were log volumes made available as a result of the repurchase of the Western Forest Products Inc. fibre supply agreement in 2005.

Our log production costs, at \$57 per m³, were slightly lower this quarter than in the same quarter last year. Higher harvest volumes, of which a greater proportion was performed by competitively-bid contractors, contributed to this favourable variance. The Company's contractors are under cost pressure from high fuel and other commodity prices, and from the shortage of skilled labour that has emerged in our industry. As a result, while costs have been stable through the first quarter, we anticipate modest upward pressure on costs for the balance of the year.

Safety continues to be a priority with the management team focused on ensuring that all of our contractors have rigorous safety practices in place. The Company has improved its audit and on-going monitoring procedures with the objective of having a better safety record in 2006 than it had in 2005, and is committed to only contracting with safety-certified contractors on its land base once the new BC Forest Safety Council safety certification program becomes fully operational.

In our lumber markets, we were able to maintain consistent supply at a time when many of our coastal BC competitors took downtime during the quarter. This helped pricing for many of our products. The Elk Falls Lumbermill remains for sale and we continue to work with different parties conducting due diligence on the operation. We have also begun negotiations with the Communications, Energy and Paperworkers (CEP) union for the renewal of the collective labour agreement for mill employees. The current agreement for the mill expires May 1, 2006, and is separate from the Company's timberland operations. Given the uncertainties surrounding ownership at this point in time, the Company has proposed a one-year rollover of the current CEP agreement.

Of note at this time are recent developments in Canada/US softwood lumber dispute, including the drafting of a tentative agreement between Canadian and US trade officials. This tentative agreement contemplates refunding a portion of duties paid. To the end of March 2006, TimberWest has paid US\$3.2 million in combined countervailing and anti-dumping duties on lumber products sold into the US market since the dispute began in 2002.

We continue to see buoyancy in both demand and pricing for real estate throughout most of Vancouver Island, with the Company realizing net proceeds of \$5.5 million on the sale of higher-use properties during the quarter. Subsequent to the end of the quarter, the Company closed the sale of the Youbou sawmill site on Cowichan Lake for proceeds of \$9.5 million. We are pleased with this transaction and believe it

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represents excellent value for this property at \$38,000 per hectare. This transaction will be included in our second quarter results.

Real estate prices have improved over 70% on Vancouver Island in the past five years. Given this dramatic increase, TimberWest retained the consulting arm of Colliers International (Colliers International Realty Advisors Inc.) to undertake an independent evaluation of our entire real estate portfolio and update the size and other attributes of our higher and better use (HBU) properties.

The results of this study indicate that our portfolio of HBU lands over a five-year planning horizon has increased significantly. We now have identified in excess of 10,000 hectares of HBU lands worth between \$150 million and \$200 million that would be available for us to sell in the next five years, meaning that we have the potential to sell an average of \$30 million of HBU lands per annum. That said, we expect this annual cash flow to be somewhat volatile as development processes and markets can be unpredictable.

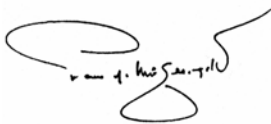
Real estate sales act as a buffer for weakness in export log and lumber markets and may augment the Company's ability to fund distributions in the longer term. In the near term, with the stronger Canadian dollar and with the coastal forest industry continuing to struggle, this may add to the security of our distributions.

We will continue to work with our real estate consultants on the 5 to 15-year time horizon and note that the preliminary results of this analysis indicate that the portfolio of HBU lands is considerably larger than the amount available in the first five years. As this longer-term view will have an impact on our timberland operations, a more comprehensive analysis of this entire area is required to ensure that we are maximizing unitholder value.

Also of note is that subsequent to the end of the first quarter, TimberWest has removed another encumbrance on its business. Specifically, the Company has entered into annuity purchase agreements for all of the retired employees in its salaried employee defined benefit pension plans. What this means is that the Company has transferred approximately \$90 million of future pension obligations to a financial institution at a net cost to TimberWest of \$1.1 million. This pension plan was in a deficit position and the cost of this annuitization program is approximately the same as the Company's 2006 cost to fund the deficit, therefore the net effect on distributable cash will be negligible. In the second quarter of 2006, as a result of this transaction the Company will be recording a \$17.2 million non-cash pension expense that would have otherwise been recognized in future years. We believe this transaction removes a significant risk and encumbrance from our business at a minimal cost, while providing security for retirees.

We expect the second quarter to be good and we are maintaining our guidance that TimberWest will generate sufficient distributable cash from its timberland, lumbermill and real estate operations to cover its distribution requirements for 2006.

On behalf of the Board of Directors



Paul J. McElligott
President and Chief Executive Officer

Vancouver, British Columbia
April 27, 2006

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Management's Discussion and Analysis

For the three months ended March 31, 2006 and 2005

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 2006. This discussion and analysis provides an overview of significant developments that have affected TimberWest's performance during the first quarter of 2006 relative to the first quarter of 2005, and that have affected the Company's financial position as at March 31, 2006, relative to December 31, 2005. 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 2005 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 27, 2006.

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>	Three months ended March 31, 2006	Three months ended March 31, 2005
Net earnings (loss)	\$ 2.9	\$ (2.4)
Interest on Series A Subordinate Notes owned by unitholders	20.9	20.8
Earnings available for distribution	23.8	18.4
Future income tax (recovery) expense	(2.6)	1.2
Earnings available for distribution before provision for future income taxes	21.2	19.6
Add (deduct):		
Depreciation, depletion and amortization	2.4	2.1
Proceeds from sale of property, plant and equipment	5.5	26.8
Loss (gain) on sale of property, plant and equipment	3.4	(6.8)
Additions to property, plant and equipment	(0.4)	(17.8)
Other non-cash items	(0.6)	—
	10.3	4.3
Distributable cash	\$ 31.5	\$ 23.9

Per Stapled Unit amounts:

<i>(in dollars)</i>	Three months ended March 31, 2006	Three months ended March 31, 2005
<i>Basic and diluted earnings available for distribution before provision for future income taxes per weighted average Stapled Unit</i>	\$ 0.27	\$ 0.25
<i>Basic and diluted distributable cash per weighted average Stapled Unit</i>	\$ 0.41	\$ 0.31
<i>Cash distributions paid per Stapled Unit</i>	\$ 0.27	\$ 0.27

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The following table provides a reconciliation of cash flow from operations before changes in working capital to distributable cash:

<i>(in millions of dollars)</i>	Three months ended March 31, 2006	Three months ended March 31, 2005
Cash flow from operations before changes in working capital	\$ 6.7	\$ (5.5)
Add (deduct):		
Interest on Series A Subordinate Notes owned by unitholders	20.9	20.8
Proceeds from sale of property, plant and equipment	5.5	26.8
Additions to property, plant and equipment	(0.4)	(17.8)
Other non-cash items	(1.2)	(0.4)
	24.8	29.4
Distributable cash	\$ 31.5	\$ 23.9

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. Reconciliations of net earnings (loss) and cash flow from operations before changes in working capital, as determined in accordance with GAAP, and earnings available for distribution and distributable cash are provided in the preceding tables.

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

	2006	2005	2004	2003	2002	2001
Distributable Cash						
<i>(in millions of dollars)</i>						
First quarter	\$ 31.5	\$ 23.9	\$ 27.7	\$ 25.7	\$ 21.2	\$ 25.9
Second quarter		15.4	43.5	4.7	10.6	26.7
Third quarter		(1.7)	35.9	12.0	34.1	14.1
Fourth quarter		29.7	18.1	9.0	24.2	16.8
	\$ 31.5	\$ 67.3	\$ 125.2	\$ 51.4	\$ 90.1	\$ 83.5
Distributable Cash per Stapled Unit						
<i>(in dollars)</i>						
First quarter	\$ 0.41	\$ 0.31	\$ 0.36	\$ 0.34	\$ 0.30	\$ 0.40
Second quarter		0.20	0.57	0.06	0.14	0.41
Third quarter		(0.02)	0.47	0.15	0.45	0.22
Fourth quarter		0.38	0.24	0.12	0.32	0.26
	\$ 0.41	\$ 0.87	\$ 1.64	\$ 0.67	\$ 1.21	\$ 1.29

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Quarterly Financial Highlights

TimberWest generated distributable cash of \$31.5 million or basic and diluted distributable cash of \$0.41 per weighted average Stapled Unit for the three months ended March 31, 2006, compared to distributable cash of \$23.9 million or basic and diluted distributable cash of \$0.31 per weighted average Stapled Unit for the same period in 2005, of which \$0.10 per Stapled Unit came from one-time gains. The increase in distributable cash from the prior year period can be primarily attributed to higher operating earnings in the first quarter of 2006, reflecting both higher average realizations on log and lumber sales and an increase in log and lumber sales volumes. In addition, revenues from real estate activity of \$6.6 million were higher compared to revenues of \$1.9 million for the prior year period. Earnings available for distribution for the three months ended March 31, 2006, before provision for future income taxes, were \$21.2 million or \$0.27 per basic and diluted weighted average Stapled Unit compared to \$19.6 million or \$0.25 per basic and diluted weighted average Stapled Unit for the comparative period in 2005.

Sales for the three months ended March 31, 2006 were \$126.3 million compared to sales of \$98.6 million reported for the comparative period in 2005. Operating earnings were \$25.3 million or 20% of sales for the first quarter of 2006 compared to \$17.3 million or 18% of sales for the same period in 2005. The year over year strengthening of the operating margin primarily reflects higher average realizations on log and lumber sales, which were up 6% and 11%, respectively, and an increase in log and lumber sales volumes, up 12% and 36%, respectively, compared to the same period in 2005. Earnings before interest, taxes, depreciation and amortization (EBITDA)¹ for the three months ended March 31, 2006, were \$27.5 million or \$0.35 per basic and diluted weighted average Stapled Unit compared to \$25.5 million or \$0.33 per basic and diluted weighted average Stapled Unit for the comparative period in 2005. The three months ended March 31, 2006 had net earnings of \$2.9 million, equating to basic and diluted net earnings of \$0.04 per weighted average common share, compared to a net loss of \$2.4 million or a basic and diluted net loss of \$0.03 per weighted average common share for the comparative period in 2005.

Subsequent Event

Subsequent to March 31, 2006, TimberWest entered into an agreement with a financial institution to purchase annuities for all retirees in the Company's salaried employee defined benefit pension plans.

Effective April 15, 2006, approximately \$90.0 million of pension obligations were transferred to the financial institution at a cost to TimberWest of \$1.1 million. This component of the Company's defined salaried employee defined benefit pension plans was in a deficit position at the time of the transaction. With the cost of the annuitization program being approximately the same as the Company's 2006 cost to fund the deficit, the net effect on distributable cash will be negligible.

TimberWest will be recording a \$17.2 million non-cash pension expense in the second quarter of 2006 related to this transaction, representing the unamortized net actuarial loss associated with retiree pension obligations at the transaction date that would have otherwise been amortized over the expected life of the pension plan.

TimberWest believes this transaction removes a significant risk and encumbrance from its business at a minimal cost, while providing security for retirees.

Once this annuitization has been completed, TimberWest will continue to have defined benefit pension plan obligations of approximately \$5.0 million related to a small number of salaried employee defined benefit plan members not yet retired. These obligations are fully funded at this time.

TimberWest is also in the process of winding up and annuitizing a small hourly employee defined benefit plan. The timing for completing this process is uncertain, however, it is expected to be completed before the end of 2006. The effect of this transaction is not expected to be material.

¹ 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 (loss) as determined in accordance with GAAP and EBITDA is provided in the supplemental information appended to this interim report.



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Cash Distribution

On April 27, 2006, TimberWest announced a distribution of \$0.269 per Stapled Unit, payable July 15, 2006, to unitholders of record on July 1, 2006. From inception to March 31, 2006, the Company has generated distributable cash of \$695.6 million while, including the April 15, 2006 distribution of \$20.9 million, the Company has paid out \$671.0 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, 2006, were \$85.6 million, up 18% from log sales of \$72.6 million for the quarter ended March 31, 2005. This increase reflects a 12% increase in log sales volume, with 889,200 m³ of logs sold in the first quarter of 2006, and a 6% increase in overall log sales realizations, averaging \$96 per m³ for the first quarter of 2006. Export log sales volumes were up 38% or 115,400 m³ over the comparative period in 2005, including a 52% increase in volumes sold into all Asian markets and an 18% increase in volumes sold into the US. Much of the increased export volume can be attributed to fibre freed up as the result of the 2005 repurchase of the Western Forest Products Inc. fibre supply agreement. Log sales volumes into the domestic market were down 4% over the comparative period in 2005. Export realizations continue to be negatively affected by the strength of the Canadian dollar, with the Canadian dollar approximately 6% stronger relative to the US dollar during the first quarter of 2006 compared to the same period in 2005. However, pricing levels in the first quarter of 2006 were supported by a lower supply of logs in all of the Company's market segments due to reduced harvests as a result of adverse winter weather conditions. TimberWest took advantage of this situation and the flexibility provided by its private timberland asset base by increasing harvesting at lower elevations, including a greater than typical proportion of second-growth Douglas fir. As a result, average log sales realizations for the quarter were boosted by a sales mix more heavily weighted in higher-value Douglas fir. The operating margin from timberland operations for the first quarter of 2006 averaged 38% of log sales, compared to 30% of log sales for the first quarter of 2005. The improved results for 2006 reflect the effects of higher average log sales realizations discussed previously, as well as a slight improvement in production costs in the quarter, coming in at \$57 per m³, compared to \$58 per m³ for the comparative period in 2005. The decrease in production costs reflects economies achieved from increased production during the quarter, a higher proportion of which was done by competitively-bid contractors.

Lumber sales for the three months ended March 31, 2006, of \$28.0 million were 51% higher than sales of \$18.6 million for the quarter ended March 31, 2005. This increase reflects a 36% increase in lumber volumes sold and an 11% increase in average lumber sales realizations compared to the same period in 2005. The lumbermill was able to maintain consistent supply to customers through the quarter, a factor which helped product pricing at a time when many competitors were taking downtime. Production at the lumbermill was 48.8 million board feet of lumber in the first quarter of 2006, up approximately 4% compared to production in the same period of 2005.

Wood chip sales for the three month period ended March 31, 2006, of \$3.5 million were up from \$2.8 million for the comparative period in 2005, reflecting increased available chip volumes due to increased lumbermill production and higher average chip sales realizations.

Real estate activity for the first quarter of 2006 generated revenues of \$6.6 million compared to revenues of \$1.9 million for the first quarter of 2005. One property sold during the quarter was previously operated as a log sort. This property had significant unamortized capital costs for which no value was received on the sale, contributing to a real estate loss of \$3.3 million for the quarter.

Financial Position

Current assets decreased \$1.3 million to \$87.5 million at March 31, 2006, down from \$88.8 million as at December 31, 2005. Inventories have increased \$6.5 million, reflecting both an increased log harvest and increased lumber production during the quarter relative to the fourth quarter of 2005. Cash, accounts receivable, prepaid expenses and other current assets, and the future income tax asset at March 31, 2006, have all decreased from December 31, 2005. Of note is a \$4.7 million decrease in prepaid expenses and



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other current assets, which reflects lower amounts related to real estate activity and the closing of several property transactions during the quarter that were outstanding at the end of 2005.

Property, plant and equipment were \$1,307.7 million as at March 31, 2006, \$10.7 million less than as at December 31, 2005. This decrease primarily reflects the sale of property, plant and equipment, including higher and better use properties, with a net book value of \$8.9 million during the first quarter of 2006, as well as a provision for depreciation of capital assets of \$2.2 million recorded during the quarter.

Other assets were \$12.3 million at March 31, 2006, and are comparable to the balance of \$11.9 million at December 31, 2005. Other assets are comprised primarily of prepaid pension benefits and deferred debt issue costs.

Current liabilities as at March 31, 2006, were \$64.5 million compared to \$51.0 million as at December 31, 2005. This variance can be attributed to a \$13.5 million increase in accounts payable and accrued liabilities, including an increase in amounts owing to contractors as a result of increased harvest levels during the first quarter of 2006 compared to the fourth quarter of 2005.

As at March 31, 2006, the Company had combined borrowings of \$11.0 million on its available credit facilities, including borrowing of \$6.0 million on its \$65.0 million long-term unsecured revolving facility and borrowing of \$5.0 million on its \$100.0 million long-term unsecured revolving facility.

Long-term financial liabilities as at March 31, 2006, also included \$195.0 million aggregate principal amount of 7.0% unsecured senior debentures due October 1, 2007.

Other long-term liabilities as at March 31, 2006, included a silviculture liability of \$3.4 million, a \$29.0 million liability relating to non-pension post-retirement benefits and a future income tax liability of \$182.0 million. These balances are comparable to balances as at December 31, 2005.

The Series A Subordinate Note component of the Company's Stapled Unit is presented as a liability on the Company's consolidated balance sheets. As at March 31, 2006, the Series A Subordinate Note liability was \$695.9 million.

During the three months ended March 31, 2006, 245,238 Stapled Unit options were granted and options to purchase 18,191 Stapled Units were exercised for proceeds of \$0.2 million. As at April 27, 2006, the Company had 1,082,526 granted and outstanding Stapled Unit option awards and 77,505,762 issued and outstanding Stapled Units.

Cash Flow and Liquidity

Cash provided by operations before changes in non-cash working capital for the three months ended March 31, 2006, was \$6.7 million or \$0.09 per weighted average Stapled Unit compared to cash used in operations before changes in non-cash working capital of \$5.5 million or \$0.07 per weighted average Stapled Unit for the same period in 2005. During the first quarter of 2006, non-cash working capital decreased by \$12.5 million compared to a \$1.6 million decrease reported for the same period in 2005. The current period decrease reflects the net effect of an increase in inventories and accounts payable and accrued liabilities, and a decrease in accounts receivable and prepaid expenses and other working capital compared to balances at December 31, 2005.

Net cash used in financing activities during the three months ended March 31, 2006, was \$25.8 million compared to \$5.9 million used in financing activities in the comparative period of 2005. During the three months ended March 31, 2006, the Company issued 18,191 Stapled Units on the exercise of Stapled Unit options for net proceeds of \$0.2 million, compared to the issuance of 205,329 Stapled Units on the exercise of Stapled Unit options for net proceeds of \$2.5 million in the comparative period of 2005. During the first quarter of 2006, \$26.0 million was applied to reduce amounts borrowed on available credit facilities, whereas \$8.4 million was applied to reduce amounts borrowed on available credit facilities in the comparative period in 2005.

Net cash provided by investing activities during the three months ended March 31, 2006, was \$4.6 million compared to \$8.2 million for the comparative period of 2005. In the first quarter of 2006, the Company received net proceeds of \$5.5 million from the sale of property, plant and equipment, primarily from the sale of higher use properties, and incurred \$0.4 million on capital expenditures, primarily on the construction of roads. Amounts for the first quarter of 2005 reflect transactions related to the business transformation



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initiative completed during that period, including \$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 net proceeds on the sale of higher use properties.

As at March 31, 2006, TimberWest's total debt² outstanding was \$206.0 million compared to total debt outstanding of \$232.0 million as at December 31, 2005. The Company's consolidated debt-to-total capitalization ratio² as at March 31, 2006 was 18:82, slightly more favourable than 20:80 as at December 31, 2005. As at March 31, 2006, the Company also had commitments of \$16.9 million relating to outstanding letters of credit issued to secure various obligations of the Company, including \$16.3 million issued under its demand bank guarantee facility and \$0.6 million issued under its \$100.0 million long-term unsecured revolving facility. Total debt facilities available to the Company as at March 31, 2006, were \$386.3 million, comprised of \$10.0 million available under a demand operating credit facility, \$16.3 million available under a demand bank guarantee facility due June 30, 2006, \$65.0 million available under a revolving facility due July 7, 2010, \$100.0 million available under a revolving facility due July 27, 2010 and \$195.0 million of 7.0% debentures maturing on October 1, 2007.

² 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.

TIMBERWEST FOREST CORP.

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 2005 annual audited consolidated financial statements. In the Company's opinion, the amounts include all normal recurring adjustments necessary for the fair presentation of such information. These financial results are not necessarily indicative of results for any future period and should not be relied upon to predict future performance.

<i>(in millions of dollars, except per common share and per Stapled Unit amounts)</i>	2004			2005				2006
	Q2	Q3	Q4	Q1	Q2	Q3	Q4	Q1
Sales	\$ 136.8	\$ 119.9	\$ 114.9	\$ 98.6	\$ 107.6	\$ 119.2	\$ 132.8	\$ 126.3
Operating earnings	\$ 28.4	\$ 23.0	\$ 15.0	\$ 17.3	\$ 17.8	\$ 14.0	\$ 21.0	\$ 25.3
Net earnings (loss) before extraordinary item	\$ 8.5	\$ 3.6	\$ (1.2)	\$ (2.4)	\$ (6.7)	\$ (17.0)	\$ 30.9	\$ 2.9
Extraordinary item, net of applicable income taxes	\$ -	\$ 9.0	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -
Net earnings (loss)	\$ 8.5	\$ 12.6	\$ (1.2)	\$ (2.4)	\$ (6.7)	\$ (17.0)	\$ 30.9	\$ 2.9
Earnings available for distribution	\$ 29.1	\$ 33.2	\$ 19.5	\$ 18.4	\$ 14.1	\$ 3.8	\$ 51.8	\$ 23.8
Earnings (loss) available for distribution before provision for future income taxes	\$ 29.0	\$ 33.0	\$ 13.2	\$ 19.6	\$ 13.0	\$ (6.9)	\$ 24.3	\$ 21.2
Distributable cash before extraordinary item	\$ 43.5	\$ 21.9	\$ 18.1	\$ 23.9	\$ 15.4	\$ (1.7)	\$ 29.7	\$ 31.5
Distributable cash from extraordinary item	\$ -	\$ 14.0	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -
Distributable cash	\$ 43.5	\$ 35.9	\$ 18.1	\$ 23.9	\$ 15.4	\$ (1.7)	\$ 29.7	\$ 31.5
Distributions paid	\$ 20.6	\$ 20.6	\$ 20.6	\$ 20.7	\$ 20.8	\$ 20.8	\$ 20.8	\$ 20.9
<i>\$ per common share</i> ³								
Basic and diluted net earnings (loss) before extraordinary item	\$ 0.11	\$ 0.05	\$ (0.02)	\$ (0.03)	\$ (0.09)	\$ (0.22)	\$ 0.40	\$ 0.04
Extraordinary item	\$ -	\$ 0.11	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -
Basic and diluted net earnings (loss) after extraordinary item	\$ 0.11	\$ 0.16	\$ (0.02)	\$ (0.03)	\$ (0.09)	\$ (0.22)	\$ 0.40	\$ 0.04
<i>\$ per Stapled Unit</i> ³								
Basic and diluted earnings available for distribution	\$ 0.38	\$ 0.43	\$ 0.25	\$ 0.24	\$ 0.18	\$ 0.05	\$ 0.67	\$ 0.31
Basic and diluted earnings (loss) available for distribution before provision for future income taxes	\$ 0.38	\$ 0.43	\$ 0.17	\$ 0.25	\$ 0.17	\$ (0.09)	\$ 0.31	\$ 0.27
Basic and diluted distributable cash before extraordinary item	\$ 0.57	\$ 0.29	\$ 0.24	\$ 0.31	\$ 0.20	\$ (0.02)	\$ 0.38	\$ 0.41
Basic and diluted distributable cash from extraordinary item	\$ -	\$ 0.18	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -
Basic and diluted distributable cash	\$ 0.57	\$ 0.47	\$ 0.24	\$ 0.31	\$ 0.20	\$ (0.02)	\$ 0.38	\$ 0.41
Distributions paid	\$ 0.27	\$ 0.27	\$ 0.27	\$ 0.27	\$ 0.27	\$ 0.27	\$ 0.27	\$ 0.27

³ 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.

Outlook

For the balance of 2006, TimberWest anticipates the housing market in Japan to remain consistent with 2005 levels. Despite the relative strength in the Japanese economy, the Company does not expect this to translate into higher housing starts or a higher overall demand for logs and lumber in the current year. The Company expects to ship increased log volume to this market in 2006 compared to 2005 volume, however, it expects pricing will remain stable.

In the US, housing starts are expected to drop modestly during the last half of the year. In addition, log supply is expected to increase in the US during the second quarter as the weather improves. This, coupled with a modest decline in demand later in the year, suggest that US log prices will soften in the last half of the year.

Other Asian markets are expected to be stable for the balance of 2006 and to deliver results similar to those achieved in 2005.

In the Company's domestic markets, reasonable demand and pricing is expected in the near term due to limited log supply. However, as log production increases toward the end of the second quarter, it is expected that log prices will decrease to some extent.

For the second quarter, the Company's harvest mix will again be predominantly fir from low-elevation stands but, as the weather improves later in the quarter, harvesting will shift to higher elevations where the mix becomes heavier to hemlock – a lower-value species. The Company anticipates net sales realizations will trend lower for the balance of the year as hemlock becomes a larger component of the sales mix and the supply of logs increases in certain markets.

As is the case in many other industries, TimberWest's contractors are experiencing increased cost pressures. As a result, the Company expects to see some increase in its production costs in 2006; however, the Company will continue to work with its contractors to find efficiencies wherever possible.

TimberWest expects the second quarter to be good and is maintaining its guidance that the Company will generate sufficient distributable cash from its timberland, lumbermill and real estate operations to cover its distribution requirements for 2006 and that it will finish the year in a strong financial condition.

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, 2006	Three months ended March 31, 2005
Sales	\$ 126.3	\$ 98.6
Operating costs and expenses:		
Cost of sales	95.2	75.9
Selling, administrative and other	3.6	3.5
Depreciation, depletion and amortization	2.2	1.9
	101.0	81.3
Operating earnings	25.3	17.3
Interest expense:		
Series A Subordinate Notes owned by unitholders	20.9	20.8
Long-term debt	3.8	3.1
Short-term debt	-	0.5
	24.7	24.4
Amortization of deferred financing costs	0.2	0.2
Other income	-	(6.3)
	24.9	18.3
Earnings (loss) before income taxes	0.4	(1.0)
Income tax (recovery) expense (note 2)	(2.5)	1.4
Net earnings (loss)	\$ 2.9	\$ (2.4)
<i>Basic and diluted net earnings (loss) per common share (note 3)</i>	<i>\$ 0.04</i>	<i>\$ (0.03)</i>

Consolidated Statements of Retained Earnings

(in millions of dollars)
Unaudited

	Three months ended March 31, 2006	Three months ended March 31, 2005
Retained earnings, beginning of period	\$ 33.2	\$ 28.4
Net earnings (loss) for the period	2.9	(2.4)
Retained earnings, end of period	\$ 36.1	\$ 26.0

See accompanying notes to unaudited interim consolidated financial statements.

TIMBERWEST FOREST CORP.

Consolidated Balance Sheets

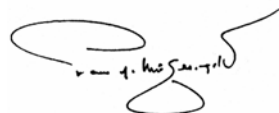
(in millions of dollars)

	As at March 31, 2006 <i>Unaudited</i>	As at December 31, 2005
Assets		
Current assets:		
Cash	\$ 1.0	\$ 3.0
Accounts receivable	23.1	23.9
Inventories	54.7	48.2
Prepaid expenses and other current assets	6.5	11.2
Future income taxes	2.2	2.5
	87.5	88.8
Property, plant and equipment, net (note 4)	1,307.7	1,318.4
Other assets	12.3	11.9
	\$ 1,407.5	\$ 1,419.1
Liabilities and Unitholders' Equity		
Current liabilities:		
Accounts payable and accrued liabilities	\$ 43.6	\$ 30.1
Distribution payable	20.9	20.9
	64.5	51.0
Revolving credit facilities (note 5)	11.0	37.0
Debentures	195.0	195.0
Long-term silviculture liability	3.4	3.2
Non-pension post-retirement benefits	29.0	28.6
Future income taxes	182.0	184.9
	484.9	499.7
Series A Subordinate Notes owned by unitholders (note 6)	695.9	695.7
	1,180.8	1,195.4
Unitholders' equity:		
Share capital, consisting of common and preferred shares (note 6)	189.8	189.8
Contributed surplus	0.8	0.7
Retained earnings	36.1	33.2
	226.7	223.7
	\$ 1,407.5	\$ 1,419.1

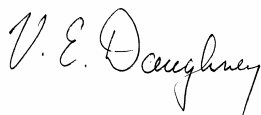
Subsequent event (note 9)

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, 2006	Three months ended March 31, 2005
Cash provided by (used in):		
Operating activities:		
Net earnings (loss)	\$ 2.9	\$ (2.4)
Items not involving cash:		
Depreciation, depletion and amortization	2.4	2.1
Loss (gain) on sale of property, plant and equipment	3.4	(6.8)
Future income tax (recovery) expense	(2.6)	1.2
Other non-cash items	0.6	0.4
	6.7	(5.5)
Changes in non-cash working capital:		
Accounts receivable	0.8	(13.6)
Inventories	(6.5)	6.9
Prepaid expenses and other working capital	4.7	0.1
Accounts payable and accrued liabilities	13.5	8.1
Distribution payable	-	0.1
	19.2	(3.9)
Financing activities:		
Issuance of Stapled Units on exercise of options:		
Series A Subordinate Notes	0.2	1.8
Share capital	-	0.7
	0.2	2.5
Revolving credit facilities	(26.0)	(8.4)
	(25.8)	(5.9)
Investing activities:		
Proceeds from sale of property, plant and equipment	5.5	26.8
Additions to property, plant and equipment	(0.4)	(17.8)
Other assets	(0.5)	(0.8)
	4.6	8.2
Decrease in cash and cash equivalents	(2.0)	(1.6)
Cash and cash equivalents, beginning of period	3.0	1.6
Cash and cash equivalents, end of period	\$ 1.0	\$ -
Supplemental information:		
Interest on Series A Subordinate Notes paid to unitholders	\$ 20.9	\$ 20.7
Other interest paid	\$ 0.4	\$ 0.4
Income taxes paid	\$ 0.1	\$ 0.1

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, 2006 and 2005

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, 2005.

2. Income Taxes

	Three months ended March 31, 2006	Three months ended March 31, 2005
Current income tax expense – large corporation tax	\$ 0.1	\$ 0.2
Future income tax (recovery) expense	(2.6)	1.2
	\$ (2.5)	\$ 1.4

3. Loss per Share

	Three months ended March 31, 2006	Three months ended March 31, 2005
Net earnings (loss)	\$ 2.9	\$ (2.4)
Basic weighted average number of common shares	77,495,190	76,988,877
Incremental common shares from potential exercise of options	78,723	211,659
Diluted weighted average number of common shares	77,573,913	77,200,536
Basic and diluted net earnings (loss) per common share	\$ 0.04	\$ (0.03)

4. Property, Plant and Equipment

Property, plant and equipment at March 31, 2006, 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, 2006 and 2005

5. Revolving Credit Facilities

As at March 31, 2006, the Company had combined borrowings of \$11.0 million on available credit facilities, including borrowing of \$6.0 million on its \$65.0 million long-term unsecured revolving facility and borrowing of \$5.0 million on its \$100.0 million long-term unsecured revolving facility. In addition, as at March 31, 2006, the Company had commitments of \$16.9 million relating to outstanding letters of credit, including \$16.3 million issued under its demand bank guarantee facility and \$0.6 million issued under its \$100.0 million long-term unsecured revolving facility.

6. Stapled Units

	Stapled Unit Components			Total
	Number	Series A Subordinate Notes	Share Capital (consisting of common and preferred shares)	
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	205,329	1.8	0.7	2.5
Balance, March 31, 2005	77,112,346	\$ 692.3	\$ 188.5	\$ 880.8
Three months ended March 31, 2006:				
Balance, December 31, 2005	77,487,571	\$ 695.7	\$ 189.8	\$ 885.5
Issuance of Stapled Units on exercise of options	18,191	0.2	–	0.2
Balance, March 31, 2006	77,505,762	\$ 695.9	\$ 189.8	\$ 885.7

The Company issues equity by way of Stapled Units, each Stapled Unit consisting of approximately \$8.98 face amount of Series A Subordinate Notes, 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 the Series A Subordinate Notes held by unitholders in common or preferred shares of the Company, and may elect to pay the principal amount of the Series A Subordinate Notes held by unitholders in common shares of the Company.

TIMBERWEST FOREST CORP.

Notes to Unaudited Interim Consolidated Financial Statements

For the three months ended March 31, 2006 and 2005

7. 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, 2006, the Company recorded an expense of \$0.3 million for pension benefit costs (2005 – \$0.4 million) and made cash payments of \$1.0 million to fund current and future service costs (2005 – \$0.8 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, 2006, the Company recorded an expense of \$1.0 million for non-pension benefit costs (2005 – \$0.9 million) and made cash payments of \$0.6 million to fund current benefit costs (2005 – \$0.5 million).

Subsequent to March 31, 2006, the Company entered into an agreement with a financial institution to purchase annuities for all retirees of the Company's salaried employee defined benefit pension plans. Additional information on this transaction is provided in note 9.

8. 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, 2006, 245,238 Stapled Unit options were granted at an exercise price of \$13.94 (2005 – 342,998 Stapled Unit options were granted at an average exercise price of \$15.80).

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:

	2006	2005
Risk-free interest rate	4.1%	3.5%
Expected life (years)	5.0	5.0
Expected volatility	20.3%	20.0%
Dividend yield	8.0%	6.8%
Number of options granted	245,238	348,998
Fair value of each option granted	\$0.92	\$1.30

The compensation cost for the 245,238 Stapled Unit options granted between January 1, 2006 and March 31, 2006 is \$226,000 (2005 – 342,998 Stapled Unit options were granted with a compensation cost of \$449,000). 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 \$70,000 has been recognized in net earnings for the three months ended March 31, 2006 (2005 – \$65,000), with a corresponding credit to contributed surplus.

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, 2006, \$0.2 million has been accrued for awards granted under this plan (2005 – \$0.3 million) and \$0.2 million has been amortized against earnings for the quarter (2005 – \$0.3 million).

During the three months ended March 31, 2006, a total of 18,191 Stapled Unit options with an average exercise price of \$12.14 were exercised (2005 – 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).

TIMBERWEST FOREST CORP.

Supplemental Information

Unaudited

Three months ended
March 31, 2006

Three months ended
March 31, 2005

Sales by Product

(in millions of dollars)

Log sales		
Domestic	\$ 35.4	\$ 37.1
Export – Asia	35.6	24.0
Export – US	14.6	11.5
Total log sales	85.6	72.6
Lumber	28.0	18.6
Wood chips and other	6.1	5.5
Real estate	6.6	1.9
	\$ 126.3	\$ 98.6

Sales Volume

Logs (thousand m³)

Domestic	467.1	487.0
Export – Asia	266.3	175.1
Export – US	155.8	131.6
	889.2	793.7
Lumber (million fbm)	47.5	35.0

Log Sales Mix (thousand m³)

Fir	598.5	447.7
Hembal	126.9	199.6
Cedar	77.2	92.0
Other	86.6	54.4
	889.2	793.7

Production Volume

Logs (thousand m³)

Public tenures	211.4	53.3
Private timberlands	881.6	691.3
	1,093.0	744.6
Lumber (million fbm)	48.8	46.9

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

(in millions of dollars)

Net earnings (loss)	\$ 2.9	\$ (2.4)
Add (deduct):		
Interest on Series A Subordinate Notes paid to unitholders	20.9	20.8
Interest on long-term debt	3.8	3.1
Interest on short-term debt	–	0.5
Income tax (recovery) expense	(2.5)	1.4
Depreciation, depletion and amortization	2.2	1.9
Amortization of deferred financing costs	0.2	0.2
EBITDA	\$ 27.5	\$ 25.5

* 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 m³ 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[®]). TimberWest also owns renewable Crown harvest rights to 0.7 million m³ of logs per year and operates a lumbermill located near Campbell River, BC. In addition, at this time, approximately 6,200 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.

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

Visit our website at: www.timberwest.com

