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## **SECOND QUARTER INTERIM REPORT**

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**FOR THE THREE AND SIX MONTHS ENDED JUNE 30, 2002**

**TimberWest Forest Corp.**

## TIMBERWEST FOREST CORP.

### To Our Unitholders,

As anticipated, the second quarter was a challenging one for the Company, yet despite very weak markets, TimberWest has again exceeded the capital market's distributable cash expectations. The Company generated distributable cash of \$20.4 million, or \$0.27 per weighted average Stapled Unit for the second quarter of 2002, before the restructuring charge of \$9.8 million, or \$0.13 per weighted average Stapled Unit. This brings year to date distributable cash generated to \$41.6 million, or \$0.57 per weighted average Stapled Unit before the restructuring charge. This is down from the second quarter of 2001 and first half of 2001, when markets were stronger, stumpage payments to the Province were lower, and real estate sales were higher.

2002 second quarter financial results are lower than those achieved in the second quarter of 2001 largely due to the fact that log prices were at recent lows for many log sorts. Average sales realizations were \$100 per m<sup>3</sup> in the most recent quarter, compared to \$114 per m<sup>3</sup> during the second quarter of 2001. Not only were markets weaker during the quarter, but the Company's overall log sales mix was weaker, with a higher than average component of pulp logs.

Operating results were also affected by an increase in stumpage payments to the Provincial Government, with payments up \$2.9 million in the first half of 2002, increasing unit cost of production by \$1.95 per m<sup>3</sup> over the combined private/public land harvest. In addition, the timing of the Company's real estate sales has been different this year from past years. While in 2001 we booked \$4.5 million in proceeds from real estate sales in the second quarter, in the same period this year our real estate proceeds totalled only \$1.6 million, and year to date we've achieved only \$2.3 million, compared to sales of \$8.1 million completed in the first six months of 2001. However, these are timing differences only, as during the first two weeks of the third quarter the Company has closed two real estate transactions for proceeds of approximately \$14 million.

In terms of achieving permanent cost reductions on the operations side, we have made good progress, with logging cost of sales down \$4.00 per m<sup>3</sup> year over year. However, as previously mentioned, stumpage has been higher on a year to date basis by \$1.95 per m<sup>3</sup>. This increase in stumpage was offset by reduced road building activity and changes in harvesting systems mix. When all of these factors are taken into account, we are close to achieving \$3.00 per m<sup>3</sup> towards our permanent cost reduction program.

In terms of our safety performance, year to date the Company has achieved an MIR of 4.7, ahead of our safety target of 6 for the year 2002 and better than last year's actual.

As I reported to you at the beginning of the year, TimberWest has a new strategic plan in place to enhance the performance of all of our businesses, which includes reducing costs and improving productivity. It is our vision to be a market-driven company, growing the greatest value with the existing basket of assets through operations excellence.

As part of the company-wide cost reduction program, there has been a thorough examination of all positions within TimberWest to determine how best to streamline staff and increase efficiencies. As a result, approximately 50 positions have been permanently eliminated, including about 20 percent of the Company's salaried staff, resulting in cost savings of approximately \$6 million per year.

This reduction in our workforce is part of the re-design of TimberWest that is necessary to ensure we continue to be a profitable, performance-oriented company that provides a good return on investment. We have a severance policy in place that is designed to help those affected find new opportunities outside of TimberWest. I thank these employees for their contributions to the Company. In the quarter, we are taking a one-time restructuring charge to earnings of \$9.8 million to cover the cost of severance, early retirement programs and closure of facilities.

We have reviewed our senior management team and a number of changes have been made at this level as well.

Hamish Kerr is the Company's new Vice President of Strategic Planning and Forest Policy. Hamish spent 20 years as a Vice President, Director and Forest Products Analyst with a major investment firm. One of Hamish's primary roles will be to coordinate TimberWest's strategic planning process and he will be involved in all aspects of business strategy. On the forest policy side, Hamish will be responsible for the long-term forest stewardship functions on the Company's private lands, including determining how best to grow more trees faster on less land.

By combining two former roles – Vice President/Chief Forester and Director of Strategic Planning – into one position, the Company has reduced corporate staff costs. We also have eliminated the position of Senior Vice President, Corporate Development and Real Estate. We thank Gary Cowan for his contributions and wish him well in his new endeavours. Gary's responsibilities have been re-distributed to others on the Senior Management Team.

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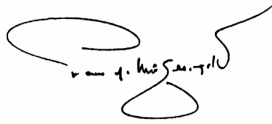
## TIMBERWEST FOREST CORP.

There have also been a number of management changes at our Elk Falls Lumbermill to better position the mill for future success. Ed Vervynck has been appointed General Manager, Manufacturing of TimberWest, with overall responsibility for the Elk Falls Lumbermill. John Burch is the Company's new Director of Marketing and Transportation for the lumber manufacturing division, and Terry Hamilton is the new Mill Manager at Elk Falls. While new to TimberWest, these individuals are not new to the coastal forest products industry. All three are former senior managers of Primex Forest Products Ltd., a company that was widely regarded as a success story in coastal BC. They have worked together as a team in the past and have extensive experience and a successful track record in the coastal lumber manufacturing business.

I am confident I now have an extremely strong team in place that has hit the ground running. We will achieve operations excellence and deliver strong returns for our unitholders.

Thank you for your support.

On behalf of the Board of Directors



Paul J. McElligott  
President and Chief Executive Officer

Vancouver, British Columbia  
July 16, 2002

# TIMBERWEST FOREST CORP.

## Management's Discussion and Analysis

### For the three and six months ended June 30, 2002

*Management's Discussion and Analysis supplements, but does not form part of, the unaudited interim consolidated financial statements of TimberWest Forest Corp. ("TimberWest") and the notes thereto for the second quarter of 2002. This discussion and analysis provides an overview of significant developments that have affected TimberWest's performance during the second quarter and year to date of 2002 relative to the second quarter and year to date of 2001, and that have affected the Company's financial position as at June 30, 2002 relative to December 31, 2001. 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 2001 Annual Report.*

### Restructuring Charge

Earlier in the year, TimberWest implemented a strategic plan to enhance the performance of all businesses through reduced costs and improved productivity. TimberWest's vision is to be a market-driven company, growing the greatest value with the existing basket of assets through operations excellence. As part of a company-wide cost reduction program there has been a thorough examination of all staff positions within TimberWest in an effort to streamline operations and increase efficiencies. As a result of this review, approximately 50 positions have been permanently eliminated, including approximately 20 percent of the Company's salaried staff, with expected cost savings of approximately \$6 million per year.

In connection with the restructuring, the Company is taking a one-time, pre-tax charge to earnings of \$9.8 million in the second quarter to cover the cost of severance, early retirement programs and closure of facilities.

### Quarterly Financial Highlights

As described above, a one-time, pre-tax restructuring charge of \$9.8 million was recorded during the second quarter of 2002. The \$9.8 million charge results in a direct reduction to distributable cash<sup>1</sup>, earnings available for distribution<sup>1</sup> before provision for future income tax expense, and EBITDA<sup>1</sup>, and has the effect of reducing all of these measures by \$0.13 per weighted average Stapled Unit for the second quarter of 2002.

After giving effect to the restructuring charge, TimberWest generated distributable cash of \$10.6 million, or basic and diluted distributable cash of \$0.14 per weighted average Stapled Unit for the quarter ended June 30, 2002, compared to distributable cash of \$26.7 million, or basic and diluted distributable cash of \$0.41 per weighted average Stapled Unit for the same period in 2001. Earnings available for distribution for the quarter, before provision for future income tax expense, were \$5.3 million or \$0.07 per weighted average Stapled Unit compared to \$20.1 million, or \$0.31 per weighted average Stapled Unit for the same quarter in 2001. Net sales for the second quarter were \$120.7 million, compared to net sales of \$130.2 million reported for the second quarter of 2001. Operating earnings were \$19.3 million for the second quarter of 2002 compared to \$26.3 million for the same quarter in 2001. EBITDA for the quarter ended June 30, 2002 was \$12.7 million, or \$0.17 per weighted average Stapled Unit compared to \$30.4 million, or \$0.47 per weighted average Stapled Unit for the same period in 2001.

### Year to Date Financial Highlights

The one-time, pre-tax restructuring charge of \$9.8 million recorded during the second quarter of 2002, described above, results in a direct reduction to distributable cash, earnings available for distribution before provision for future income tax expense, and EBITDA, and has the effect of reducing all of these measures by \$0.13 per weighted average Stapled Unit on a year to date basis.

For the six months ended June 30, 2002, after giving effect to the restructuring charge, TimberWest generated distributable cash of \$31.8 million, or basic and diluted distributable cash of \$0.43 per weighted average Stapled Unit, compared to distributable cash of \$52.6 million, or basic and diluted distributable cash of \$0.81 per weighted average Stapled Unit for the same period in 2001. Earnings available for distribution for the six months, before provision for future income tax expense, were \$20.2 million or \$0.28 per weighted average Stapled Unit compared to \$41.3 million, or \$0.64 per weighted average Stapled Unit for the same period in 2001. Net sales for first six months of 2002 were \$209.6 million, compared to net sales of

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

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\$240.9 million reported for the same period of 2001. Operating earnings were \$40.3 million for the six months ended June 30, 2002 compared to \$54.3 million for the comparative period in 2001. EBITDA for the six months ended June 30, 2002 was \$36.4 million, or \$0.50 per weighted average Stapled Unit compared to \$62.0 million, or \$0.95 per weighted average Stapled Unit for the same period in 2001.

In February 2002, the Company completed an equity offering through a syndicate of underwriters of 11,190,650 Stapled Units at a price of \$12.85 per Stapled Unit, for gross proceeds of \$143.8 million. Net proceeds of the offering of \$136.1 million were used to reduce the Company's indebtedness under its non-revolving credit facility.

## Cash Distributions

On July 16, 2002, TimberWest announced a distribution of \$0.269 per Stapled Unit, payable October 15, 2002 to unitholders of record on October 1, 2002. On a year to date basis, including the distribution paid on July 15, 2002, TimberWest has distributed \$58.3 million or \$0.808 per Stapled Unit to its 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 June 30, 2002 were \$102.9 million, down 6% from log sales of \$109.1 million for the quarter ended June 30, 2001. This overall decrease is the net result of lower log sales realizations and increased log sales volumes over the comparative period. Average sales realizations on log sales during the second quarter of 2002 fell 12%, down to \$100 per m<sup>3</sup> from \$114 per m<sup>3</sup> for the comparative period in 2001. Export realizations were down considerably, off 16%, while domestic realizations were down 3%. The decrease in sales realizations was partially offset by a 7% increase in the volume of logs sold, rising to 1,025.5 thousand m<sup>3</sup> compared with 960.9 thousand m<sup>3</sup> for the second quarter of 2001. Sales into the domestic log market increased by 13%, while export sales were on track with levels for the comparative period of 2001. The export market mix shifted over the comparative period, with volume to Japan/Asia decreasing from 56% to 46% of export sales and volume to the US increasing from 44% to 54% of export sales. Not only were markets weaker during the quarter, the Company's overall log sales mix was weaker, with a higher than average component of pulp logs.

Log sales for the six months ended June 30, 2002 were \$175.9 million, down 7% from \$190.2 million for the comparative period in 2001. This decline arose despite an overall increase of 3% in log shipments to 1,675.3 thousand m<sup>3</sup>. This increase in log shipments was the net result of a 30% increase in export sales volumes, offset by a 13% decrease in domestic sales volumes. Continued strength in demand from our international customers, particularly those in the US, has enabled the Company to maintain harvest and employment levels above those of many other operators on the coast of BC. Average realizations on log sales for the six months ended June 30, 2002 of \$105 per m<sup>3</sup> were 10% lower than realizations of \$117 per m<sup>3</sup> for the comparative period in 2001, with domestic realizations down 9% and export realizations down 18%.

For the quarter ended June 30, 2002, TimberWest's operating earnings from logging fell to 20% of log sales, down from 29% of log sales for the second quarter of 2001. The combined impacts of lower log sales realizations and increased log sales volumes in the second quarter of 2002 relative to the comparative period of 2001 were partially mitigated by an improvement in TimberWest's unit logging cost of sales for the second quarter of 2001, down to \$77 per m<sup>3</sup> from \$80 per m<sup>3</sup>. This decrease can be attributed to lower production on the Company's higher-cost Crown tenures, a combination of lower transportation costs, reduced road building activity and the use of lower-cost harvest techniques compared to the second quarter of 2001. In addition, cost reduction initiatives for the second quarter yielded an additional \$2.8 million towards the 2002 target.

Year to date, operating earnings from logging as a percentage of log sales fell to 27% for the first six months of 2002, compared to 32% for the same period in 2001. This 5% decrease reflects the impacts of increased volumes sold and lower average realizations. Again, the impact of these conditions was partially mitigated by improvements in unit logging cost of sales which were down to \$75 per m<sup>3</sup> from \$79 per m<sup>3</sup> for the comparative six months in 2001. This improvement is the net result of savings realized from reduced production on higher-cost Crown tenures and to a combination of increased mechanization in the harvest process, reduced road building activity and the use of lower-cost harvest techniques, offset in part by an increase in stumpage payments to the Province, which were up \$2.9 million in the first half of 2002 over the same period in 2001, resulting in an increase in unit cost of production by \$1.95 per m<sup>3</sup> over the combined private/public land harvest. On a year to date basis, cost reduction initiatives implemented in the Company's timberland operations have delivered \$4.7 million towards the 2002 target benefits.

Lumber sales for the quarter ended June 30, 2002 of \$13.0 million were on track with sales of \$13.4 million for the quarter ended June 30, 2001. Year over year, the volume of lumber sold in the second quarter of 2002 decreased by 7% to 28.7 million board feet, while lumber sales realizations increased 4%, averaging \$454 per mfbm for the quarter ended June 30, 2002. Both demand and pricing for lumber products remained steady despite poor economic conditions in all end markets.

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Lumber sales for the six months ended June 30, 2002 of \$25.7 million were 28% lower than sales of \$35.5 million for the comparative period in 2001. The 2001 figures include the sale of product remaining after the closure of the Cowichan Lumbermill in early 2001. 2002 year to date lumber sales from the Elk Falls Lumbermill of \$25.7 million are in line with those of \$26.3 million reported for this mill for the six months ended June 30, 2001, reflecting comparable sales volumes and realizations for the respective periods. Markets for the Company's lumber products continued to be weak but steady in the first half of fiscal 2002, evidenced by a 3% decrease in Elk Falls' sales volumes and a 1% increase in sales realizations over the comparative period in the prior year.

Wood chip sales volumes for the quarter ended June 30, 2002 were consistent with those for the same period in 2001. 2002 year to date wood chip sales and sales volumes were lower than the prior year, reflecting wood chip production solely from Elk Falls in the current fiscal year. Overall weakness in the forest products sector contributed to a decrease in wood chip sales realizations for both the second quarter and first six months of 2002 compared to the same periods in 2001.

Real estate sales activity for the second quarter of 2002 continued to lag behind that of the second quarter of 2001, and combined with lower activity reported for the first quarter, have resulted in year to date real estate sales coming in \$5.8 million less than for the first six months of 2001.

## Financial Position

Working capital, excluding the Company's credit facilities and the distribution payable, decreased by \$19.5 million during the quarter ended June 30, 2002, to \$33.6 million, and was \$16.8 million less than at December 31, 2001. These decreases can be attributed to moderate decreases in inventories and accounts receivable, as well as an increase in accounts payable and accrued liabilities due mainly to provision for the \$9.8 million restructuring charge recorded during the second quarter.

At June 30, 2002, current liabilities included \$63.0 million drawn on the non-revolving credit facility maturing on December 31, 2002, and \$125.0 million for debentures maturing on March 3, 2003. The Company anticipates refinancing both of these liabilities through the debt markets.

The distribution payable at June 30, 2002, of \$20.5 million is comparable to that at the end of the first quarter, but is \$3.1 million greater than the distribution payable at December 31, 2001, reflecting an increase in the number of Stapled Units outstanding as a result of the equity offering completed during the first quarter of 2002.

As at June 30, 2002, TimberWest's consolidated debt was \$231.1 million compared to a balance of \$241.0 million at March 31, 2002 and \$378.6 million as at December 31, 2001. The Company's consolidated debt-to-equity ratio as at June 30, 2002 was 20:80, comparable to the ratio of 21:79 at the end of the first quarter of 2002 but stronger than the ratio of 32:68 as at December 31, 2001. The current year's favorable position can be attributed to the use of net proceeds of \$136.1 million from the equity offering completed during the first quarter to pay down the Company's non-revolving credit facility. Total debt facilities available to the Company as at June 30, 2002 were \$323.0 million, down from \$460 million at December 31, 2001. This decrease is the result of a reduction in funds available to the Company through the non-revolving credit facility as a consequence of the \$137.0 million repayment on this facility during the first quarter.

During the quarter ended June 30, 2002, options to purchase 126,730 Stapled Units were exercised for proceeds of \$1.1 million, options to purchase 34,200 Stapled Units were granted and options to purchase 44,420 Stapled Units were cancelled. Year to date, options to purchase 190,981 Stapled Units were exercised for proceeds of \$1.7 million, options to purchase 49,200 Stapled Units were granted and options to purchase 44,420 Stapled Units were cancelled.

## Cash Flow and Liquidity

Net cash generated from operations before changes in non-cash working capital for the three months ended June 30, 2002, was \$8.5 million or \$0.11 per weighted average Stapled Unit compared to \$23.4 million or \$0.36 per weighted average Stapled Unit for the corresponding quarter in 2001. Year to date, net cash generated from operations before changes in non-cash working capital was \$29.7 million or \$0.41 per weighted average Stapled Unit compared to \$47.5 million or \$0.73 per weighted average Stapled Unit for the comparative period in 2001. During the second quarter of 2002, non-cash working capital decreased by \$19.5 million compared to a \$9.4 million increase reported for the same period in 2001. Year to date, non-cash working capital decreased by \$16.8 million compared to a \$22.6 million increase reported for the same period in 2001. The decrease in the current year reflects efforts to manage inventory and accounts receivable levels, as well as higher accrued liabilities resulting mainly from the restructuring charge recorded in the second quarter of 2002.

Net cash used for financing activities during the second quarter of 2002 was \$29.2 million, an increase of \$12.6 million over the same quarter in 2001. The increase over the comparative quarter in the prior year reflects a \$5.9 million reduction in the revolving credit facility and a \$4.0 million reduction in the overdraft facility during the second quarter of 2002, as well as a \$3.0 million increase in distributions paid to unitholders during the second quarter of 2002. Though the per unit distribution remained the same at \$0.269 per Stapled Unit, the increased number of Stapled Units outstanding as a result of the equity offering completed in the first quarter resulted in an overall increase in distributions paid. Net cash used for financing activities during the first six months of 2002 was \$47.5 million, an increase of \$18.4 million over the same year to date period.



## TIMBERWEST FOREST CORP.

in 2001. This increase reflects repayments on credit facilities and higher distributions paid to unitholders during the first half of 2002 compared to the same period in 2001. Other notable financing activities in the first half of fiscal 2002 include the use of funds raised through the bought deal public offering completed in the first quarter of 2002 to repay amounts borrowed on the Company's non-revolving credit facility and the receipt of \$1.7 million for Stapled Units issued on the exercise of 190,981 Stapled Unit options.

Net cash provided by investing activities during the second quarter of 2002 was \$1.2 million compared to net cash provided by investing activities of \$2.6 million for the same quarter of 2001. Year to date, net cash provided from investing activities in 2002 was \$1.0 million compared to \$4.2 million for the comparative period in 2001. These variances from the prior year can be attributed to lower sales of higher use properties, lower maintenance capital expenditures and a decrease in other assets during 2002 in comparison to the same period for 2001.

### Normal Course Issuer Bid

Pursuant to a normal course issuer bid, TimberWest may repurchase, in the open market through the facilities of the Toronto Stock Exchange, up to 3,252,350 Stapled Units, representing approximately 5% of the Company's issued and outstanding Stapled Units as of the date of acceptance of the bid, in the 12 months commencing October 29, 2001. As at June 30, 2002 TimberWest has not repurchased any of its Stapled Units through this instrument.

### Outlook

For the balance of 2002, TimberWest anticipates pricing to be stable with some strengthening in a number of our end log products. Supply in the US lumber market is expected to tighten as a result of the duties on Canadian lumber and it is anticipated that the price of both logs and lumber will improve in the second half of the year. The log market in Japan is expected to be stable with the possibility of some improvement. Our domestic log market continues to suffer from supply shortages resulting in a stable price forecast for most sorts. Market pulp appears to be starting another cycle with successful price increases. TimberWest expects some modest price increases for chips and pulplogs as a result.

The Company continues to work hard on its operations excellence initiative and is working towards achieving its cost reduction targets. Capital expenditures are expected to be higher than usual in the back half of the year because of a planned investment in an additional new dryland sort facility. The cash impact of this investment is expected to be more than offset by higher than normal real estate sales – to date, in the third quarter, TimberWest has closed approximately \$14.0 million in real estate sales, the most significant of these being the sale of our Earle Creek property.

The Company will continue to work with government on public policy change and is hopeful that positive changes will occur on Crown tenure in the second half of 2002. However, the impact of any regulatory change is unlikely to be realized until 2003. In particular, TimberWest expects stumpage rates to continue to be higher than in 2001 through the back half of the year.

All in all, the Company anticipates that, before considering the provision for restructuring, it will deliver financial results similar to those of 2001 for unitholders.

*The statements which are not historical facts contained in this report are forward-looking statements that involve risks and uncertainties. TimberWest's actual results could differ materially from those expressed or implied by such forward-looking statements. Factors that could cause or contribute to such differences include, but are not limited to, general economic conditions, variations in TimberWest's product prices and changes in commodity prices generally, changes in market conditions, actions of competitors, interest rate and foreign currency fluctuations, regulatory and harvesting fee changes and other actions by governmental authorities, the ability to implement business strategies and pursue business opportunities, weather conditions, forest fires and other natural phenomena and other risks and uncertainties described in TimberWest's public filings with securities regulatory authorities.*

# TIMBERWEST FOREST CORP.

## Consolidated Statements of Distributable Cash

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

	Three months ended		Six months ended	
	June 30, 2002	June 30, 2001	June 30, 2002	June 30, 2001
Net earnings	\$ 1.8	\$ 11.0	\$ 9.5	\$ 23.2
Income tax benefit related to distributions	2.2	7.8	8.4	15.6
Earnings available for distribution	4.0	18.8	17.9	38.8
Future income tax expense	1.3	1.3	2.3	2.5
Earnings available for distribution before provision for future income tax expense	5.3	20.1	20.2	41.3
Add (deduct):				
Depreciation, depletion and amortization	3.6	3.9	8.2	7.7
Proceeds from sale of capital assets	1.9	4.6	2.7	8.2
Gain on sale of capital assets	(0.4)	(0.9)	(0.6)	(1.7)
Maintenance capital expenditures	(1.4)	(1.8)	(1.7)	(2.2)
Other non-cash items	1.6	0.8	3.0	(0.7)
	5.3	6.6	11.6	11.3
<b>Distributable cash</b>	<b>\$ 10.6</b>	<b>\$ 26.7</b>	<b>\$ 31.8</b>	<b>\$ 52.6</b>
<b>Basic and diluted distributable cash per Stapled Unit</b>	<b>\$ 0.14</b>	<b>\$ 0.41</b>	<b>\$ 0.43</b>	<b>\$ 0.81</b>
<b>Cash distributions paid per Stapled Unit</b>	<b>\$ 0.27</b>	<b>\$ 0.27</b>	<b>\$ 0.54</b>	<b>\$ 0.54</b>
Basic weighted average number of Stapled Units outstanding for the period (000's)	75,971	64,975	73,195	64,944
Diluted weighted average number of Stapled Units outstanding for the period (000's)	76,140	65,184	73,358	65,117
Stapled Units outstanding at the end of the period (000's)	76,072	64,975	76,072	64,975

## Quarterly Comparison of Distributable Cash

Unaudited

	2002	2001	2000	1999	1998
<b>Distributable Cash</b> (in millions of dollars)					
First	\$ 21.2	\$ 25.9	\$ 28.4	\$ 24.5	\$ 13.2
Second	10.6	26.7	28.2	25.1	24.0
Third		14.1	14.1	14.0	11.5
Fourth		16.8	18.5	19.7	19.6
	\$ 31.8	\$ 83.5	\$ 89.2	\$ 83.3	\$ 68.3
<b>Distributable Cash per Stapled Unit</b> (in dollars)					
First	\$ 0.30	\$ 0.40	\$ 0.41	\$ 0.36	\$ 0.19
Second	0.14	0.41	0.42	0.36	0.34
Third		0.22	0.22	0.20	0.17
Fourth		0.26	0.29	0.28	0.28
	\$ 0.43	\$ 1.29	\$ 1.34	\$ 1.20	\$ 0.98

See accompanying notes to unaudited interim consolidated financial statements.

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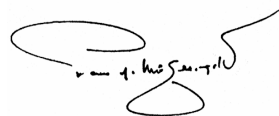
## Consolidated Balance Sheets

(in millions of dollars)

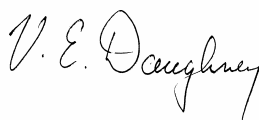
	As at June 30, 2002 <i>Unaudited</i>	As at December 31, 2001
<b>Assets</b>		
Current assets:		
Accounts receivable	\$ 28.0	\$ 32.1
Inventories	53.8	54.2
Prepaid expenses and other current assets	3.0	2.3
Future income taxes	3.0	3.0
	87.8	91.6
Capital assets, net	1,363.1	1,369.1
Other assets	22.0	26.5
	\$ 1,472.9	\$ 1,487.2
<b>Liabilities and Unitholders' Equity</b>		
Current liabilities:		
Overdraft facility	\$ -	\$ 3.6
Accounts payable and accrued liabilities	54.2	41.2
Distribution payable	20.5	17.4
Non-revolving credit facility (note 3)	63.0	200.0
Debentures (note 4)	125.0	-
	262.7	262.2
Revolving credit facility	43.1	50.0
Debentures (note 4)	-	125.0
Long-term silviculture liability	4.5	4.9
Non-pension post-retirement benefits	23.0	22.7
Future income taxes	233.3	233.9
	566.6	698.7
Unitholders' equity		
Stapled Units, consisting of Series A Subordinate Notes, preferred shares and common shares (note 5)	868.7	728.1
Retained earnings	37.6	60.4
	906.3	788.5
	\$ 1,472.9	\$ 1,487.2

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		Six months ended	
	June 30, 2002	June 30, 2001	June 30, 2002	June 30, 2001
<b>Cash provided by (used in):</b>				
<b>Operating activities:</b>				
Earnings before income taxes	\$ 5.6	\$ 20.6	\$ 20.7	\$ 42.2
Cash income taxes (note 6)	(0.3)	(0.5)	(0.5)	(0.9)
	5.3	20.1	20.2	41.3
Items not involving cash:				
Depreciation, depletion and amortization	3.6	3.9	8.2	7.7
Gain on sale of capital assets	(0.4)	(1.2)	(0.6)	(2.0)
Other non-cash items	-	0.6	1.9	0.5
	8.5	23.4	29.7	47.5
Changes in non-cash working capital:				
Accounts receivable	1.1	(6.3)	4.1	(5.6)
Inventories	1.8	(6.1)	0.4	(13.5)
Prepaid expenses and other working capital	0.5	(0.5)	(0.7)	(3.4)
Accounts payable and accrued liabilities	16.1	3.5	13.0	(0.1)
	28.0	14.0	46.5	24.9
<b>Financing activities:</b>				
Issuance of Stapled Units, net	-	-	136.1	-
Issuance of Stapled Units on exercise of options	1.1	-	1.7	1.3
Decrease in overdraft facility	(4.0)	-	(3.6)	-
Decrease in non-revolving credit facility	-	-	(137.0)	-
Decrease in revolving credit facility	(5.9)	-	(6.9)	-
Increase in operating loan	-	0.8	-	4.5
Distributions paid to unitholders	(20.4)	(17.4)	(37.8)	(34.9)
	(29.2)	(16.6)	(47.5)	(29.1)
<b>Investing activities:</b>				
Maintenance capital expenditures	(1.4)	(1.8)	(1.7)	(2.2)
Proceeds from sale of capital assets	1.9	4.8	2.7	8.4
(Increase) decrease in other assets	0.7	(0.4)	-	(2.0)
	1.2	2.6	1.0	4.2
<b>Increase in cash</b>	-	-	-	-
<b>Cash, beginning of period</b>	-	-	-	-
<b>Cash, end of period</b>	\$ -	\$ -	\$ -	\$ -
<b>Supplemental information:</b>				
Interest paid	\$ 1.5	\$ 3.5	\$ 7.1	\$ 11.6
Income taxes paid	\$ 0.5	\$ 0.9	\$ 0.8	\$ 1.5

See accompanying notes to unaudited interim consolidated financial statements.

# TIMBERWEST FOREST CORP.

## Consolidated Statements of Operations

(in millions of dollars)  
Unaudited

	Three months ended		Six months ended	
	June 30, 2002	June 30, 2001	June 30, 2002	June 30, 2001
Net sales	\$ 120.7	\$ 130.2	\$ 209.6	\$ 240.9
Operating costs and expenses:				
Cost of products sold	94.4	95.7	155.7	170.9
Depreciation, depletion and amortization	3.1	3.5	5.7	7.0
Selling, administrative and other	3.9	4.7	7.9	8.7
	101.4	103.9	169.3	186.6
Operating earnings	19.3	26.3	40.3	54.3
Interest expense	3.5	5.9	7.5	12.1
Amortization of deferred financing costs	0.5	0.4	2.5	0.7
Other income	(0.1)	(0.6)	(0.2)	(0.7)
Restructuring charge (note 8)	9.8	-	9.8	-
	13.7	5.7	19.6	12.1
Earnings before income taxes	5.6	20.6	20.7	42.2
Income tax expense (note 6)	3.8	9.6	11.2	19.0
Net earnings for the period	\$ 1.8	\$ 11.0	\$ 9.5	\$ 23.2
Basic and diluted earnings (loss) per common share (note 7)	\$ (0.22)	\$ 0.02	\$ (0.31)	\$ 0.06

## Consolidated Statements of Unitholders' Equity

(in millions of dollars)  
Unaudited

	Stapled Units		Retained earnings	Total unitholders' equity
	Number	Amount		
<b>For the six months ended June 30, 2002</b>				
Balance December 31, 2001	64,690,867	\$ 728.1	\$ 60.4	\$ 788.5
Issuance of Stapled Units, net (note 5)	11,190,650	138.9	-	138.9
Issuance of Stapled Units on exercise of options	190,981	1.7	-	1.7
Net earnings	-	-	9.5	9.5
Interest on Series A Subordinate Notes	-	-	(40.7)	(40.7)
Income tax benefit thereon	-	-	8.4	8.4
Balance, June 30, 2002	76,072,498	\$ 868.7	\$ 37.6	\$ 906.3
<b>For the six months ended June 30, 2001</b>				
Balance December 31, 2000	64,825,336	\$ 731.4	\$ 56.3	\$ 787.7
Issuance of Stapled Units on exercise of options	150,000	1.3	-	1.3
Net earnings	-	-	23.2	23.2
Interest on Series A Subordinate Notes	-	-	(34.9)	(34.9)
Income tax benefit thereon	-	-	15.6	15.6
Balance, June 30, 2001	64,975,336	\$ 732.7	\$ 60.2	\$ 792.9

See accompanying notes to unaudited interim consolidated financial statements.

# TIMBERWEST FOREST CORP.

## Notes to Unaudited Interim Consolidated Financial Statements For the three and six months ended June 30, 2002

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

### 1. Significant Accounting Policies

These unaudited interim consolidated financial statements include the accounts of TimberWest Forest Corp. and its subsidiaries. Not all disclosures required by Canadian generally accepted accounting principles for annual financial statements are presented, and accordingly, these interim financial statements should be read in conjunction with the Company's most recent annual consolidated financial statements. These interim financial statements follow the same accounting policies and methods of application used in the Company's audited annual consolidated financial statements of December 31, 2001, except for those standards which have changed subsequent to that date, as detailed below. Certain figures for previous periods have been reclassified to conform with the current period's financial statement presentation.

### 2. Accounting Policy Change

#### *Stock-based Compensation*

Effective January 1, 2002, the Company adopted the new recommendations of the Canadian Institute of Chartered Accountants ("CICA") Handbook Section 3870 – *Stock-based Compensation and Other Stock-based Payments*. The new recommendations establish standards for the recognition, measurement, and disclosure of stock-based compensation and other stock-based payments made in exchange for goods and services provided by employees and non-employees. Section 3870 sets out a fair value based method of accounting that is required for certain, but not all, stock-based transactions. Section 3870 must be applied to all stock-based payments to non-employees, and to employee awards that are direct awards of stock that call for settlement in cash or other assets, or are stock appreciation rights that call for settlement by the issuance of equity instruments. However, the new standard permits the Company to continue its existing policy that no compensation cost is recorded on the grant of Stapled Unit options to employees. Consideration paid by employees on the exercise of Stapled Unit options is recorded as an addition to Stapled Units within unitholders' equity. Section 3870 also requires additional disclosures for options granted to employees, including disclosure of pro forma earnings and pro forma earnings per share as if the fair value based accounting method had been used to account for employee stock options (see note 9).

### 3. Credit Facilities

During the quarter ended March 31, 2002, the Company made a payment of \$137.0 million on its non-revolving credit facility, reducing this liability from \$200.0 million to \$63.0 million. This payment resulted in a direct reduction in funds available to the Company through this facility, from \$200.0 million to \$63.0 million. Total debt facilities available to the Company as at June 30, 2002 were \$323.0 million.

### 4. Debentures

The Company's 6.5% Debentures mature on March 3, 2003 and have therefore been classified as current liabilities at June 30, 2002.

### 5. Stapled Units

In February 2002, the Company completed a bought deal public offering through a syndicate of underwriters of 11,190,650 Stapled Units at a price of \$12.85 per Stapled Unit for gross proceeds of \$143.8 million. Net cash proceeds received were \$136.1 million after costs of \$7.7 million (\$4.9 million after future income tax benefit of \$2.8 million).

# TIMBERWEST FOREST CORP.

## Notes to Unaudited Interim Consolidated Financial Statements For the three and six months ended June 30, 2002

### 6. Income Taxes

Income tax expense consists of:

	Three months ended		Six months ended	
	June 30, 2002	June 30, 2001	June 30, 2002	June 30, 2001
Current income tax				
Large corporation tax	\$ 0.3	\$ 0.5	\$ 0.5	\$ 0.9
Income tax benefit on interest on Series A Subordinate Notes charged directly to distributions	2.2	7.8	8.4	15.6
	2.5	8.3	8.9	16.5
Future income tax	1.3	1.3	2.3	2.5
	\$ 3.8	\$ 9.6	\$ 11.2	\$ 19.0

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

	Three months ended		Six months ended	
	June 30, 2002	June 30, 2001	June 30, 2002	June 30, 2001
<b>Net Earnings</b>				
Net earnings	\$ 1.8	\$ 11.0	\$ 9.5	\$ 23.2
Less: Distributions on Series A Subordinate Notes	(20.5)	(17.4)	(40.7)	(34.9)
Tax benefit thereon	2.2	7.8	8.4	15.6
	(18.3)	(9.6)	(32.3)	(19.3)
Earnings (loss) attributable to common shares	(16.5)	1.4	(22.8)	3.9
Earnings available for distribution attributable to Series A Subordinate Notes	20.5	17.4	40.7	34.9
Earnings available for distribution attributable to Stapled Units	\$ 4.0	\$ 18.8	\$ 17.9	\$ 38.8
<b>Weighted Average Number of Stapled Units</b>				
Basic weighted average number of Stapled Units	75,971,285	64,975,336	73,195,021	64,943,844
Incremental Stapled Units from potential exercise of options	168,619	208,904	163,465	172,900
Diluted weighted average number of Stapled Units	76,139,904	65,184,240	73,358,486	65,116,744
<b>Per Stapled Unit Amounts</b>				
Basic and diluted earnings (loss) per common share	\$ (0.22)	\$ 0.02	\$ (0.31)	\$ 0.06
Basic and diluted earnings available for distribution per Series A Subordinate Note	0.27	0.27	0.55	0.54
Basic and diluted earnings available for distribution per Stapled Unit	\$ 0.05	\$ 0.29	\$ 0.24	\$ 0.60

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 and six months ended June 30, 2002

### 8. Restructuring Charge

During the quarter ended June 30, 2002, the Company commenced a restructuring of operations with an estimated cost of \$9.8 million. As a result, a one-time, pre-tax charge of \$9.8 million was recorded in the second quarter relating to severance and facilities closure costs.

### 9. Stock-Based Compensation Plans

Under the Company's Stapled Unit Option Plan established in 2000, 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. In November 2001, to facilitate the wind-up of the Company's Stapled Unit Incentive Plan, the Company introduced a supplement to the Stapled Unit Option Plan called the Distribution Equivalent Plan. Under this supplemental plan, the Company awards Stapled Unit option holders an amount equal to actual distributions paid on the Company's Stapled Units. Awards granted under the Distribution Equivalent Plan vest under the same terms that apply to the corresponding options and can only be exercised at the time of exercise of the corresponding options.

For the Stapled Unit Option Plan, the Company's policy is that no compensation cost is recorded on stock-based compensation awards granted to employees under this plan. Consideration paid by employees on the exercise of these options is recorded as an addition to Stapled Units. Accordingly, no compensation cost has been recognized in the Company's accounts for the Stapled Unit Option Plan. Had the compensation cost for the 49,200 Stapled Unit options issued under the Stapled Unit Option Plan between January 1, 2002 and June 30, 2002 been determined based on their fair value at the grant date of the awards, consistent with the fair value method of accounting for stock-based compensation, there would have been no adjustment to the Company's net income and earnings per common share reported for either the three or six month periods ended June 30, 2002. The fair value of each option grant was estimated at the grant date using the Black-Scholes option pricing model with the following average assumptions: distribution yield of 8.1%; expected volatility of 27.1%; risk-free interest rate of 5.8%; and expected option life of 5 years.

For the supplemental Distribution Equivalent Plan, 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 income as the underlying Stapled Unit options vest. For the three months ended June 30, 2002, \$0.3 million has been accrued for awards granted under this plan relating to the April 2002 distribution paid to unitholders, and \$0.2 million has been amortized against income for the quarter. Year to date, \$0.6 million has been accrued for awards granted under this plan of which \$0.4 of this amount has been amortized against income for the period.

During the quarter ended June 30, 2002, a total of 126,730 Stapled Unit options with exercise prices ranging from \$8.91 to \$13.03 were exercised, a total of 34,200 Stapled Unit options with exercise prices ranging from \$13.13 to \$13.41 exercisable for a period of five years from the grant date were granted, and a total of 44,420 options with exercise prices ranging from \$12.84 to \$13.03 were cancelled. For the six months ended June 30, 2002, a total of 190,981 Stapled Unit options with exercise prices ranging from \$8.91 to \$13.03 were exercised, a total of 49,200 Stapled Unit Options with exercise prices ranging from \$12.87 to \$13.41 exercisable for a period of five years from grant date were granted, and a total of 44,420 options with exercise prices ranging from \$12.84 to \$13.03 were cancelled.

# TIMBERWEST FOREST CORP.

## Supplemental Information

Unaudited

	Three months ended		Six months ended	
	June 30, 2002	June 30, 2001	June 30, 2002	June 30, 2001
<b>Sales by Product</b> <i>(in millions of dollars)</i>				
Logs	\$ 102.9	\$ 109.1	\$ 175.9	\$ 190.2
Lumber	13.0	13.4	25.7	35.5
Wood chips and other	3.1	3.2	5.6	7.0
Real estate	1.7	4.5	2.4	8.2
	\$ 120.7	\$ 130.2	\$ 209.6	\$ 240.9
<b>Sales Volume</b>				
Logs ( <i>thousand m<sup>3</sup></i> )	1,025.5	960.9	1,675.3	1,628.1
Lumber ( <i>million fbm</i> )	28.7	30.8	55.5	77.4
<b>Production Volume</b>				
Logs ( <i>thousand m<sup>3</sup></i> )	1,023.9	1,007.3	1,731.4	1,880.6
Lumber ( <i>million fbm</i> )	30.9	34.0	56.9	70.0
<b>Earnings Before Interest, Taxes, Depreciation and Amortization (EBITDA)*</b> <i>(in millions of dollars)</i>				
Earnings before income taxes	\$ 5.6	\$ 20.6	\$ 20.7	\$ 42.2
Add:				
Interest expense	3.5	5.9	7.5	12.1
Depreciation, depletion and amortization	3.1	3.5	5.7	7.0
Amortization of deferred financing costs	0.5	0.4	2.5	0.7
EBITDA	\$ 12.7	\$ 30.4	\$ 36.4	\$ 62.0

\* EBITDA does not have a standardized meaning prescribed by Canadian generally accepted accounting principles and may not be comparable to similar measures presented by other companies.



# TIMBERWEST FOREST CORP.

## About TimberWest

TimberWest Forest Corp. is uniquely positioned as the largest owner of private forest lands in western Canada. The Company's 334,000 hectares, providing a sustainable annual harvest of 2.1 million to 2.5 million m<sup>3</sup> of logs, are largely located on Vancouver Island and contain some of the best coniferous forest growing sites in the world. The American Forest & Paper Association has certified that the Company is committed to managing these private lands according to sustainable forestry standards under its Sustainable Forestry Initiative (SFI)<sup>SM</sup> Program. TimberWest also owns annual Crown harvest rights of 1.2 million m<sup>3</sup> of logs, a lumbermill, and about 6,500 hectares of properties that are progressively being made available for higher uses.

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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)

