



2nd Quarter
INTERIM REPORT

For the three & six months
ended June 30, 2004

maintaining our
FOCUS

GROWING GREATEST VALUE THROUGH OPERATIONS EXCELLENCE

TIMBERWEST FOREST CORP.

To Our Unitholders,

I am pleased to report on three very positive developments in the quarter: the Company's financial performance, the conclusion of a new labour agreement enabling TimberWest to simplify its business model, and finalization of the sale of TFL 46.

TimberWest had a very strong quarter financially, generating distributable cash of \$43.5 million compared to \$4.7 million in Q2, 2003. Q2, 2003 distributable cash reflected \$7.5 million in capital expenditures, which was unusually high for the quarter. Distributable cash was positively impacted by the disposition of TFL 46 in the quarter. This transaction generated net proceeds of \$16.7 million. In addition, the Company booked a restructuring charge of \$2.7 million associated with the Company's business transformation program. Excluding these non-recurring items, distributable cash was \$29.5 million for the quarter or \$0.39 per Stapled Unit, still significantly ahead of Q2, 2003. On a year to date basis, distributable cash is \$71.2 million compared to \$30.4 million for the first half of 2003. Distributable cash from real estate sales year-to-date is \$1.0 million, which is unusually low compared to prior years. However, this is a timing matter and we expect to deliver more normalized real estate sales by year end.

Sales revenues for all forest products increased some 20% in Q2, 2004 over Q2, 2003 due to both higher volumes and improved pricing. Log revenues in the quarter were up 14.3% over the equivalent prior year period, with about half the growth attributable to volume gains and the other half to improved sales realizations. Log markets have been stable this year given the tight supply conditions and are considerably stronger than this time last year when demand in Japan and the US was weaker, the Canadian dollar was strengthening against its US counterpart, and the domestic market was oversupplied. Second quarter log sales realizations of \$105/m³ are the same as those achieved in the first quarter of 2004 and higher than the \$99/m³ realized in the second quarter of 2003.

Lumber revenues were up 60% in Q2, 2004 over Q2, 2003, with more than two-thirds of the improvement attributable to higher realizations on a richer mix of products. Elk Falls continues to be cash and earnings positive after being assessed international prices for the logs it consumes. However, in spite of the mill's improved performance, it is still not earning an adequate return on capital and management at the mill is continuing to pursue initiatives to further improve the mill's performance.

Higher production levels in the quarter combined with continuing progress with the Company's Operations Excellence strategy have resulted in significant reductions in unit costs of production and improved operating margins. We continue to take costs out of the system and the Company's operating margin was 21.6% in Q2, 2004 compared to 9.5% in Q2, 2003. Operating earnings were \$28.4 million for the quarter compared to \$10.4 million in Q2, 2003.

TimberWest's next quarterly distribution of \$0.269 per Stapled Unit will be paid on October 15, 2004, to unitholders of record on October 1, 2004. Since TimberWest's inception in July 1997, including the distribution paid on July 15, 2004, the Company has distributed in excess of \$525 million to unitholders.

Don Munroe, appointed mediator/arbitrator by the British Columbia government to resolve last year's coast forest industry strike, issued his decision for a new coast master agreement during the quarter. Among other things, he has now made it possible for companies to contract out timber harvesting operations currently performed by company crews. Contractors taking over company crew work must be IWA certified, must recognize the union seniority of employees, and must do the work on a "stump-to-dump" basis.

Munroe's decision allows TimberWest to more closely align its business model with industry norms in the rest of North America. The Company has moved swiftly to transform its business into a more focused land management company as a result of this new labour agreement. Some 50% of timber harvesting work is already done by independent contractors. TimberWest will now move to competitively bid the remainder of its logging activities to contractors and expects to completely exit the direct management of timber harvesting by calendar year end.

This action is a natural progression of our Operations Excellence strategy. It will further reduce costs while providing greater flexibility to respond to changes occurring in the marketplace. The transformation also creates new opportunities for smaller, community based timber harvesting firms in coastal British Columbia.

Hourly IWA employees currently engaged in stump-to-dump operations as employees of TimberWest will be hired by a new employer when this process is complete. The roles and responsibilities of certain salaried employees will also change. A number of positions will be eliminated before year end while others will be redefined. Some leaving the Company may be hired by contractors while others may opt for early retirement. Salaried employees not retiring and left without employment will receive severance pay and re-employment assistance from TimberWest. A number of TimberWest offices and facilities will also be closed. We have taken a \$2.7 million charge to earnings in Q2, 2004 to cover restructuring costs triggered by this business transformation program. As the components of

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the business transformation process are identified and implemented, additional restructuring costs may come to light and will be charged to earnings at that time.

While our future business model will be different, TimberWest remains committed to ensuring that harvesting operations on its lands are performed safely and in an environmentally responsible fashion. We will ensure that contractors live up to our standards, as we now do with timber harvesting work already contracted out. In addition to safety and the environment, the Company's new business model focus will be on core timberland management functions including timber inventory, harvest planning, silviculture, and the marketing and sales of timber products.

During the quarter, TimberWest also completed the sale of the public land portion of its Southern Vancouver Island operation, or Tree Farm Licence (TFL) 46, to the Teal-Jones Group for a sale price of \$17.9 million. The Annual Allowable Cut on this TFL is approximately 500,000 m³.

This transaction concludes the competitive auction process for these assets begun in the fall of 2003. In addition to the sales proceeds, which net out at \$16.7 million after severance, transaction costs and \$0.5 million of deferred proceeds to be received in 2005, leased equipment with a value of \$6.0 million was transferred to Teal-Jones, relieving the Company of commitments for future payments under operating leases in the amount of \$2.6 million. This transaction is expected to result in a reduction in the Company's working capital by approximately \$8.0 million. Some 113 hourly IWA employees and seven salaried employees have also transferred to the Teal-Jones Group.

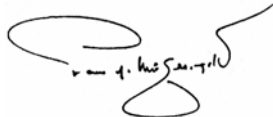
This disposition allows TimberWest to pursue our strategic objective of focusing more on the private timberland portion of our business, which we view as our core business. The sale also contributes to the diversification of tenure that the government's new forest policy encourages and it enables Teal-Jones, a privately owned BC company, to secure fibre for its British Columbia sawmills.

The softwood lumber dispute with the US continued unresolved throughout the quarter. The Canadian position has strengthened in recent weeks as a NAFTA dispute panel ruled the US International Trade Commission had not made a convincing case that Canadian lumber exports are injuring the US industry. Further, the WTO found that the US methodology used to determine the existence of dumping margins was flawed. Several internal and cross-border government and industry meetings have been held to explore whether to resume negotiations but no clear course of action has been determined. The consensus view seems to be that a negotiated solution will likely come sometime after the 2004 US Presidential election to be held in November. While we remain hopeful that Notice 102 – which unfairly restricts the export of private land logs from BC – will be removed as part of an eventual trade settlement, we are continuing with our legal challenge as well.

Looking ahead, TimberWest expects a fairly stable back half of the year in its end markets. Continued cost reduction flowing from the Company's Operations Excellence strategy is anticipated. Both capital spending and real estate sales are expected to be higher in the second half of the year. Overall, we expect to generate distributable cash from operations that will exceed our distribution requirements for 2004 and cover our restructuring costs.

Our efforts for the balance of the year will be on successfully implementing our business transformation program while staying focused on costs and working safely during a period of great change. Our safety performance in the first half of 2004 slipped relative to the first half of 2003. Our 2004 MIR statistic is 5.19 compared to 4.02 for the corresponding period last year. We continue to emphasize with everyone that safety is our first priority, especially during times of change.

On behalf of the Board of Directors



Paul J. McElligott
President and Chief Executive Officer

Vancouver, British Columbia
July 20, 2004

TIMBERWEST FOREST CORP.

Management's Discussion and Analysis

For the three and six months ended June 30, 2004 and 2003

Management's discussion and analysis supplements, but does not form part of, the unaudited interim consolidated financial statements of TimberWest Forest Corp. ("TimberWest" or "the Company") and the notes thereto for the second quarter of 2004. 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 2004 relative to the second quarter and year to date of 2003, and that have affected the Company's financial position as at June 30, 2004, relative to December 31, 2003. 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 2003 Annual Report.

TimberWest's unaudited interim consolidated financial statements and the accompanying notes included within this interim report are prepared in accordance with Canadian generally accepted accounting principles and are expressed in Canadian dollars.

This management's discussion and analysis has been prepared based on information available as at July 16, 2004. 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, except per Stapled Unit amounts)</i>	Three months ended		Six months ended	
	June 30, 2004	June 30, 2003	June 30, 2004	June 30, 2003
Net earnings	\$ 21.7	\$ 1.5	\$ 38.8	\$ 19.2
Income tax benefit related to distributions	7.4	4.9	14.7	12.6
Earnings available for distribution	29.1	6.4	53.5	31.8
Future income tax expense (recovery)	(0.1)	-	(0.9)	0.9
Earnings available for distribution before provision for future income taxes	29.0	6.4	52.6	32.7
Add (deduct):				
Depreciation, depletion and amortization	2.9	2.9	6.1	5.9
Proceeds from sale of property, plant and equipment	17.2	0.8	18.6	3.9
Gain on sale of property, plant and equipment	(4.9)	(0.3)	(5.4)	(1.3)
Additions to property, plant and equipment	(1.5)	(7.5)	(2.0)	(15.0)
Other non-cash items	0.8	2.4	1.3	4.2
	14.5	(1.7)	18.6	(2.3)
Distributable cash	\$ 43.5	\$ 4.7	\$ 71.2	\$ 30.4
<i>Basic and diluted earnings available for distribution before provision for future income taxes per weighted average Stapled Unit</i>	\$ 0.38	\$ 0.08	\$ 0.69	\$ 0.43
<i>Basic and diluted distributable cash per weighted average Stapled Unit</i>	\$ 0.57	\$ 0.06	\$ 0.93	\$ 0.40
<i>Cash distributions paid per Stapled Unit</i>	\$ 0.27	\$ 0.27	\$ 0.54	\$ 0.54

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Distributable cash includes consolidated earnings before income taxes less 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.

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

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

	2004	2003	2002	2001	2000	1999	1998
Distributable Cash							
<i>(in millions of dollars)</i>							
First	\$ 27.7	\$ 25.7	\$ 21.2	\$ 25.9	\$ 28.4	\$ 24.5	\$ 13.2
Second	43.5	4.7	10.6	26.7	28.2	25.1	24.0
Third		12.0	34.1	14.1	14.1	14.0	11.5
Fourth		9.0	24.2	16.8	18.5	19.7	19.6
	\$ 71.2	\$ 51.4	\$ 90.1	\$ 83.5	\$ 89.2	\$ 83.3	\$ 68.3
Distributable Cash per Stapled Unit							
<i>(in dollars)</i>							
First	\$ 0.36	\$ 0.34	\$ 0.30	\$ 0.40	\$ 0.41	\$ 0.36	\$ 0.19
Second	0.57	0.06	0.14	0.41	0.42	0.36	0.34
Third		0.15	0.45	0.22	0.22	0.20	0.17
Fourth		0.12	0.32	0.26	0.29	0.28	0.28
	\$ 0.93	\$ 0.67	\$ 1.21	\$ 1.29	\$ 1.34	\$ 1.20	\$ 0.98

Quarterly Financial Highlights

TimberWest generated distributable cash of \$43.5 million or basic and diluted distributable cash of \$0.57 per weighted average Stapled Unit for the quarter ended June 30, 2004, compared to distributable cash of \$4.7 million or basic and diluted distributable cash of \$0.06 per weighted average Stapled Unit for the same period in 2003. The increase in distributable cash from the prior year reflects several factors, including: considerably higher net earnings in the second quarter of 2004, reflecting both higher sales and improved operating margins; increased proceeds from the sale of property, plant and equipment, including \$16.7 million in cash proceeds from the sale of Tree Farm Licence 46 (TFL 46); and capital expenditures in the second quarter of 2004 that were \$6.0 million lower relative to the second quarter of 2003. Earnings available for distribution for the second quarter of 2004, before provision for future income taxes, were \$29.0 million or \$0.38 per basic and diluted weighted average Stapled Unit compared to \$6.4 million or \$0.08 per basic and diluted weighted average Stapled Unit for the same quarter in 2003. Net sales for the second quarter of 2004 were \$131.4 million compared to net sales of \$109.3 million reported for the second quarter of 2003. Operating earnings were \$28.4 million for the second quarter of 2004 compared to \$10.4 million for the same period in 2003, representing a 127% improvement in the operating margin year over year. Earnings before interest, taxes, depreciation and amortization (EBITDA)¹ for the quarter ended June 30, 2004, were \$35.9 million or \$0.47 per basic and diluted weighted average Stapled Unit compared to \$13.3 million or \$0.17 per basic and diluted weighted average Stapled Unit for the same period in 2003. Net earnings for the quarter ended June 30, 2004, were \$21.7 million or basic and diluted net earnings of \$0.11 per weighted average common share, compared to net earnings of \$1.5 million or a basic and diluted net loss of \$0.19 per weighted average common share for the same period in 2003.

¹ EBITDA is a measure that does 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. Management believes that the presentation of this measure will enhance an investor's understanding of the Company's operating performance. A reconciliation of net earnings as determined in accordance with GAAP and EBITDA is provided in the supplemental information appended to this interim report.

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On May 6, 2004, the Company completed the sale of the public land portion of its southern Vancouver Island operations, referred to as TFL 46. The sale price for these assets was \$17.9 million. Under the terms of the sale, silviculture liabilities of \$0.4 million were assumed by the purchaser and leased equipment with a value of \$6.0 million was transferred to the purchaser, relieving the Company of commitments for future payments under operating leases in the amount of \$2.6 million. In addition, this transaction is expected to result in a reduction in the Company's working capital by approximately \$8.0 million. Additional information on this transaction is provided under "Sale of TFL 46" in this management's discussion and analysis.

On May 26, 2004, the Company completed and received a renewal of short-term financing from a Canadian bank. The renewed financing consists of an unsecured 364-day committed revolving facility in the amount of \$40.0 million that is due on May 25, 2005. Under the 364-day facility, funds are available to the Company by way of Canadian dollar prime rate based loans, bankers' acceptances and letters of credit or guarantee and US dollar LIBOR.

On June 24, 2004, the Company announced a plan to transform its business operations to focus on forest land management through a restructuring of the Company's log harvesting operations and a move to contract out all logging activities. The Company anticipates the move to a contractor model for its logging activities will provide increased flexibility and a reduced cost structure, and will improve the Company's competitiveness in a way that is sustainable over the long term. Operating results for the quarter ended June 30, 2004, include a provision of \$2.7 million for costs relating to this restructuring. Additional information on this plan is provided under "Business Transformation" in this management's discussion and analysis.

Year to Date Financial Highlights

TimberWest generated distributable cash of \$71.2 million or basic and diluted distributable cash of \$0.93 per weighted average Stapled Unit for the six months ended June 30, 2004, compared to distributable cash of \$30.4 million or basic and diluted distributable cash of \$0.40 per weighted average Stapled Unit for the same period in 2003. The increase in distributable cash from the prior year reflects higher net earnings in the first six months of 2004, increased proceeds from the sale of property, plant and equipment and capital expenditures in the first six months of 2004 that were \$13.0 million lower relative to the same period in 2003. Earnings available for distribution for the first half of 2004, before provision for future income taxes, were \$52.6 million or \$0.69 per basic and diluted weighted average Stapled Unit compared to \$32.7 million or \$0.43 per basic and diluted weighted average Stapled Unit for the period in 2003. Net sales for the first six months of 2004 were \$233.0 million compared to net sales of \$235.9 million reported for the first six months of 2003. Operating earnings were \$56.4 million for the first half of 2004 compared to \$40.9 million for the same period in 2003, representing a 40% margin improvement compared to the first six months of 2003. EBITDA for the six months ended June 30, 2004, were \$67.0 million or \$0.88 per basic and diluted weighted average Stapled Unit compared to \$46.8 million or \$0.61 per basic and diluted weighted average Stapled Unit for the same period in 2003. Net earnings for the six months ended June 30, 2004, were \$38.8 million or basic and diluted net earnings of \$0.16 per weighted average common share, compared to net earnings of \$19.2 million or a basic and diluted net loss of \$0.12 per weighted average common share for the same period in 2003.

Early in the first quarter of 2004, the Company signed a definitive agreement for the sale of the public land portion of its southern Vancouver Island operations, referred to as TFL 46. The Company completed the sale of TFL 46 on May 6, 2004, at a sale price of \$17.9 million. Additional information on this transaction is provided under "Sale of TFL 46" in this management's discussion and analysis.

During the second quarter of 2004, the Company completed and received a renewal of short-term financing from a Canadian bank in the form of an unsecured 364-day committed revolving facility in the amount of \$40.0 million due on May 25, 2005.

On June 24, 2004, the Company announced a plan to transform its business operations to focus on forest land management through a restructuring of the Company's log harvesting operations and a move to contract out all logging activities. Operating results for the six months ended June 30, 2004, include a provision of \$2.7 million for costs relating to this restructuring. Additional information on this plan is provided under "Business Transformation" in this management's discussion and analysis.

During the first quarter of 2004, the Company completed and received a renewal of short-term financing from a Canadian bank consisting of an unsecured demand bank guarantee facility in the amount of \$16.0 million and an unsecured 364-day committed revolving facility in the amount of \$40.0 million due on March 1, 2005. Under the 364-day facility, funds are available to the Company in both Canadian and US dollars by way of adjusted prime rate based loans, Canadian dollar bankers' acceptances and letters of credit or guarantee.

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Sale of TFL 46

On January 21, 2004, the Company signed a definitive agreement for the sale of its southern Vancouver Island public land operations, referred to as TFL 46. The decision to sell TFL 46 was announced late in the third quarter of 2003 and the sale was undertaken through an auction process with qualified bidders. TFL 46 represented part of the Company's public land logging business, included timber rights to an annual allowable cut of approximately 500,000 m³ on 76,574 hectares of Crown land, and had been operated by TimberWest as part of its Honeymoon Bay operation on southwest Vancouver Island.

On May 6, 2004, the Company completed the sale of TFL 46 for a sale price of \$17.9 million. Under the terms of the sale, \$0.4 million of silviculture liabilities were assumed by the purchaser and leased equipment with a value of \$6.0 million was transferred to the purchaser, relieving the Company of commitments for future payments under operating leases in the amount of \$2.6 million. In addition, this transaction is expected to result in a reduction in the Company's working capital by approximately \$8.0 million. Further, some 113 hourly and seven salaried employees associated with this operation were transferred to the purchaser. The completion of this transaction allows the Company to pursue its strategic objective of focusing more heavily on its private timberland business.

Business Transformation

On June 24, 2004, the Company announced a plan to transform its business model through a restructuring of the Company's log harvesting operations and a move to contract out all logging activities. Currently, 50 percent of the Company's log harvesting is performed by contractors. Under the transformation plan, the Company will contract out the remainder of its logging activities to unionized contractors on a competitive-bid basis and anticipates completing this process by the end of fiscal 2004.

The transformation of the Company's logging activities to a contractor model is considered a natural progression of the Company's Operations Excellence strategy as it is expected to provide increased flexibility, a reduced cost base and an operating structure more closely aligned with industry norms in the rest of North America. Overall, this change is expected to improve the Company's competitiveness over the long term.

The Company's timberland operations employees will be affected by this change. The Company's 430 hourly employees will continue to be represented by the IWA and most, if not all, will be hired by contractors who will recognize their seniority from the Company when this process is complete. Roles and responsibilities of certain salaried employees will also change. Some 20 salaried positions are to be eliminated. Salaried employees not retiring who do not have a position going forward will receive severance and re-employment assistance from the Company. Certain facilities will also be closed. Operating earnings for the three and six month periods ended June 30, 2004, include a provision of \$2.7 million for costs relating to this restructuring. As the components of the business transformation process are identified and implemented, additional restructuring costs may come to light and will be charged to earnings at that time.

Going forward, the Company's focus will be on core timberland management functions including timber inventory, strategic silviculture investments, harvest planning, and the marketing and sales of timber products.

Cash Distribution

On July 20, 2004, TimberWest announced a distribution of \$0.269 per Stapled Unit, payable October 15, 2004, to unitholders of record on October 1, 2004. From inception to June 30, 2004, the Company has generated distributable cash of \$542.8 million while, including the July 15, 2004 distribution of \$20.6 million, the Company has paid out \$525.5 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 June 30, 2004, were \$103.2 million, up 14% from log sales of \$90.3 million for the quarter ended June 30, 2003. This increase reflects the combined effect of a 7% increase in the volume of logs sold, with 984.7 thousand m³ sold in the second quarter of 2004 compared with 916.1 thousand m³ sold in the comparative period of 2003, and a 6% increase in overall log sales realizations, averaging \$105 per m³ for the second quarter of 2004, up from the \$99 per m³ for the comparative period in 2003. Sales to domestic market customers were up 26% over the comparative quarter in 2003, reflecting a 28% increase in log sales volume, up to 655.4 thousand m³, and a 2% decrease in realizations, down to \$84 per m³. Export sales for the second quarter

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of 2004 were up 3% over the comparative period in 2003, reflecting a 19% decrease in log sales volume to 329.3 thousand m³, offset by a 26% increase in average realizations to \$145 per m³. These results reflect stability in log markets during the second quarter of 2004 due to tight supply in the market and are considerably stronger than for the comparative period in 2003 when the domestic market was oversupplied, demand in Japan and the US was weaker, and the Canadian dollar was strengthening against its US counterpart. Average sort prices for the second quarter were higher over the comparative period in 2003, particularly for fir and hemlock.

The operating margin from timberland operations for the second quarter of 2004 averaged 33% of log sales, compared to 18% of log sales for the second quarter of 2003. Responding to favourable market conditions and in anticipation of an earlier than usual fire season, operations maximized production during the quarter, until late June when weather-related curtailments were necessary. This increased production and a continued focus on cost reduction resulted in a 13% decrease in production costs to \$65 per m³ for the second quarter of 2004, compared to \$75 per m³ for the comparative period in 2003. Notable production cost reductions were achieved in the areas of ground-based yarding systems and transportation. Indirect costs were higher for the quarter due to higher fire protection costs and increased supervision costs related to Honeymoon Bay's move to a private land operation.

Log sales for the six months ended June 30, 2004, were \$182.5 million, down 6% from log sales of \$194.1 million for the comparative period in 2003. This decrease is primarily due to a 5% decrease in the volume of logs sold in the first six months of 2004 compared to the first six months of 2003 and reflects lower first quarter log sales volumes in 2004, which were 18% lower than the comparative quarter in 2003. Sales to domestic market customers were up 4% over the comparative period in 2003, reflecting a 7% increase in log sales volume to 1,156.5 thousand m³, offset by a 4% decrease in realizations, down to \$87 per m³. Export sales for the first six months of 2004 were down 15% over the comparative period in 2003, reflecting a 23% decrease in log sales volume to 581.2 thousand m³, offset by a 10% increase in average realizations to \$140 per m³. Currency remained a factor in comparing the first six months of 2004 with the first six months of 2003 as the Canadian dollar was 9% stronger during the first half of 2004 relative to the comparative period in 2003. However, these currency effects have largely been mitigated by improvement in end-use sort pricing.

The timberland operations' operating margin for the first half of 2004 averaged 36% of log sales, compared to 26% of log sales for the first six months of 2003. As with the second quarter of 2004, increased production and a continued focus on cost reduction contributed to a 14% decrease in production costs to \$63 per m³ for the first six months of 2004, compared to \$73 per m³ for the comparative period in 2003. These results reflect the effect of lower transportation and yarding costs, as well as lower stumpage charges.

Lumber sales for the quarter ended June 30, 2004, of \$23.5 million were 60% greater than sales of \$14.7 million for the quarter ended June 30, 2003. This improvement reflects strong demand during the quarter relative to the prior year period, and the combined effect of improved average sales realizations for the quarter, rising 37% to \$600 per mfbm from \$439 per mfbm for the comparative period in 2003, and a 17% increase in the volume of lumber sold, rising to 39.1 million board feet for the second quarter of 2004 from 33.5 million board feet for the second quarter of 2003. Production at the lumbermill was up 9% over the comparative quarter in 2003 to 43.0 million board feet, reflecting the benefits of a number of factors including the addition of a third shift and capital improvements undertaken in 2003.

Lumber sales for the six months ended June 30, 2004, of \$41.1 million were 32% greater than sales of \$31.2 million for the comparative period in 2003. Again, this improvement reflects strong demand in 2004 relative to 2003 as evidenced by a 19% increase in average lumber sales realizations, rising to \$577 per mfbm from \$484 per mfbm for the comparative period in 2003, and a 10% increase in the volume of lumber sold, rising to 71.2 million board feet for the first half of 2004 from 64.6 million board feet for the first half of 2003. Year to date, production at the lumbermill was up 11% over the comparative period in 2003 to 83.3 million board feet.

Wood chip sales for both the three and six month periods ended June 30, 2004, of \$3.2 million and \$6.0 million, respectively, were ahead of sales for the comparative periods in 2003, primarily due to increased chip sales volumes resulting from increased production at the Company's lumbermill facility.

Real estate activity for the second quarter of 2004 generated revenues of \$0.2 million compared to revenues of \$0.5 million for the second quarter of 2003. Year to date, 2004 real estate sales generated revenues of \$1.1 million, less than the \$3.2 million generated in the same period of 2003. The current year result is unusually low compared to prior years, however, this is due to the nature and timing of the current year's sales program.

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Financial Position

Current assets increased \$24.2 million to \$94.3 million at June 30, 2004, up from \$70.1 million as at December 31, 2003. This increase can be attributed to an increase in accounts receivable of \$9.4 million and an overall increase in inventories of \$15.0 million during the first six months of 2004, with log inventories increasing \$9.2 million to \$50.2 million and lumber inventory increasing \$5.9 million to \$9.0 million. Labour-related work stoppages on timberland operations during November and December 2003 and market-related curtailments at the lumbermill during December 2003 resulted in reduced production and lower sales activity due to limited product available for sale during the latter part of the fourth quarter of 2003, contributing to accounts receivable and inventory balances being considerably lower than typical for fiscal year end. Increased production and sales during the second quarter of 2004 relative to the fourth quarter of 2003 have resulted in accounts receivable and inventory balances being restored to more normal levels.

Property, plant and equipment of \$1,339.4 million as at June 30, 2004, was \$17.1 million less than at December 31, 2003, primarily reflecting the completion of the sale of TFL 46 during the second quarter of 2004 for a sale price of \$17.9 million. Other factors contributing to the variance in this balance include the year to date provision for depreciation, depletion and amortization of \$5.4 million, plus the sale of other property, plant and equipment in the first six months of the year for proceeds of \$1.6 million, partially offset by \$2.0 million in additions to property, plant and equipment during the first half of 2004.

Other assets were \$14.4 million at June 30, 2004, comparable to the balance of \$14.3 million at December 31, 2003. Other assets are comprised primarily of prepaid pension benefits and deferred debt issue costs.

Current liabilities at the end of the second quarter of 2004 were \$102.9 million, down \$7.1 million from \$110.0 million as at December 31, 2003. Accounts payable and accrued liabilities increased \$23.6 million during the first half of 2004, to \$53.1 million at June 30, 2004. Similar to accounts receivable and inventory balances, accounts payable and accrued liabilities were at less than normal levels at December 31, 2003, due to production-related curtailments late in the fourth quarter of 2003 and lower stumpage fee accruals due to reduced harvests on Crown tenures during the fourth quarter of 2003. Increased production in the first six months of 2004 has resulted in accounts payable and accrued liabilities increasing to more typical levels as at June 30, 2004. The distribution payable at the end of the second quarter of 2004 of \$20.6 million is up slightly from the distribution payable at December 31, 2003, reflecting a consistent per unit distribution and an increase in the number of Stapled Units outstanding at the end of the quarter due to the exercise of Stapled Unit options during the first six months of 2004.

On March 2, 2004, the Company completed and received a renewal of short-term financing from a Canadian bank consisting of an unsecured demand bank guarantee facility in the amount of \$16.0 million and an unsecured 364-day committed revolving facility in the amount of \$40.0 million due on March 1, 2005. Under this 364-day facility, funds are available to the Company in both Canadian and US dollars by way of adjusted prime rate based loans, Canadian dollar bankers' acceptances and letters of credit or guarantee. On May 26, 2004, the Company completed and received a renewal of short-term financing from a second Canadian bank. The renewed financing consists of an unsecured 364-day committed revolving facility in the amount of \$40.0 million that is due on May 25, 2005. Under this 364-day facility, funds are available to the Company by way of Canadian dollar prime rate based loans, bankers' acceptances, letters of credit or guarantee and US dollar LIBOR. As at June 30, 2004, the Company had borrowings of \$29.2 million on its two \$40.0 million unsecured 364-day revolving facilities, a decrease of \$30.8 million from borrowings of \$60.0 million at December 31, 2003, offsetting the increases in the other current liability items.

As at June 30, 2004, long-term credit facilities available to the Company consisted of an unsecured revolving credit facility for \$125.0 million due on June 30, 2006. There were no borrowings on this facility at June 30, 2004, or at December 31, 2003. Long-term liabilities as at June 30, 2004, included \$195.0 million aggregate principal amount of 7.0% unsecured senior debentures due October 1, 2007, a silviculture liability of \$3.6 million, a \$26.3 million liability relating to non-pension post retirement benefits and a future income tax liability of \$229.6 million. These liabilities have not changed materially from balances reported at December 31, 2003.

During the quarter ended June 30, 2004, options to purchase 79,250 Stapled Units were exercised for proceeds of \$0.9 million. During the six month period ended June 30, 2004, 313,220 Stapled Unit options were granted and options to purchase 229,450 Stapled Units were exercised for proceeds of \$2.8 million. As at July 16, 2004, the Company had 1,602,503 granted and outstanding Stapled Unit option awards and 76,475,572 issued and outstanding Stapled Units.

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Cash Flow and Liquidity

Net cash generated from operations before changes in non-cash working capital for the three months ended June 30, 2004, was \$26.3 million or \$0.34 per weighted average Stapled Unit compared to \$9.3 million or \$0.12 per weighted average Stapled Unit for the corresponding quarter in 2003. Year to date, net cash generated from operations before changes in non-cash working capital was \$53.3 million or \$0.70 per weighted average Stapled Unit compared to \$37.6 million or \$0.49 per weighted average Stapled Unit for the comparative period in 2003. During the second quarter of 2004, non-cash working capital decreased by \$1.7 million compared to a \$9.1 million increase reported for the same period in 2003. The decrease for the second quarter of 2004 reflects a slight decrease in accounts receivable and accounts payable and accrued liabilities balances, offset by a slight increase in inventories as at June 30, 2004, relative to March 31, 2004. Year to date non-cash working capital increased by \$0.6 million compared to a \$15.0 million increase reported for the same period in 2003. The minor increase in the current year reflects the net effect of increases in all working capital components at June 30, 2004, compared to December 31, 2003, due to increased production and sales activity discussed previously.

Net cash used in financing activities during the second quarter of 2004 was \$43.5 million compared to \$5.7 million provided by financing activities in the comparative period of 2003. In the second quarter of 2004 the Company made a \$20.6 million distribution to unitholders compared to a \$20.5 million distribution in the second quarter of 2003. During the three months ended June 30, 2004, the Company issued 79,250 Stapled Units for net proceeds of \$0.9 million on the exercise of Stapled Unit options, compared to \$0.1 million received on the exercise of options for 6,667 Stapled Units in the comparative period of 2003. In the second quarter of 2004, cash flow from operating and investing activities was in excess of the quarterly distribution requirements and excess cash of \$23.8 million was used to repay amounts owing on revolving credit facilities. In the second quarter of 2003, the Company borrowed \$26.1 million on its credit facilities to supplement cash flow from operations to fund other financing and investing activities for the period. Net cash used in financing activities during the first six months of 2004 was \$69.1 million, an increase from the \$14.2 million used in financing activities during the comparative period in 2003. In the first half of 2004, the Company made distributions of \$41.1 million to unitholders compared to distributions of \$41.0 million in the first six months of 2003. During the first half of 2004, the Company issued 229,450 Stapled Units for net proceeds of \$2.8 million on the exercise of Stapled Unit options, compared to \$0.5 million received on the exercise of options for 53,334 Stapled Units in the comparative period of 2003. In the first six months of 2004, the Company use excess cash from operations and proceeds from the sale of property, plant and equipment to repay \$30.8 million owing on its revolving credit facilities. In the first half of 2003, the Company drew \$132.8 million on available credit facilities primarily to retire the Company's 6.5% debentures for \$106.5 million and to finance capital expenditures of \$15.0 million made in the first six months of the year.

Net cash provided by investing activities during the second quarter of 2004 was \$15.5 million compared to net cash used in investing activities of \$5.9 million for the same quarter of 2003. For the six months ended June 30, 2004, net cash provided by investing activities was \$16.4 million compared to net cash used in investing activities of \$9.4 million for the comparative period in 2003. Current year second quarter and year to date investing cash flows reflect significantly greater proceeds from the sale of property, plant and equipment as they include \$16.2 million cash proceeds of the \$16.7 million net proceeds received from the sale of TFL 46. In addition, comparative figures for 2003 reflect greater capital expenditures relative to the same periods in 2004, including \$3.3 million to complete the North Island log sort and significant costs associated with the purchase of new dry kilns and other improvements undertaken at the Elk Falls lumbermill in 2003. Additions to property, plant and equipment in the first half of 2004 were lower at \$2.0 million.

As at June 30, 2004, TimberWest's total debt² outstanding was \$224.2 million compared to total debt outstanding of \$255.0 million as at December 31, 2003. The Company's consolidated debt-to-total capitalization ratio² as at June 30, 2004, was 20:80, compared to 23:77 as at December 31, 2003. Total debt facilities available to the Company as at June 30, 2004, were \$416.0 million, comprised of \$16.0 million available under the demand bank guarantee facility due March 1, 2005, \$40.0 million available under the 364-day revolving facility due March 1, 2005, \$40.0 million available under the 364-day revolving facility due May 25, 2005, \$125.0 million available under the revolving credit facility maturing on June 30, 2006, 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 Canadian generally accepted accounting principles (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 financial resources and capital structure.

TIMBERWEST FOREST CORP.

Quarterly Financial Information

The following table presents select 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 annual audited consolidated financial statements and, in the Company's opinion, 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>	2002		2003				2004	
	Q3	Q4	Q1	Q2	Q3	Q4	Q1	Q2
Net sales	\$ 130.4	\$ 124.9	\$ 126.6	\$ 109.3	\$ 100.3	\$ 92.3	\$ 101.6	\$ 131.4
Operating earnings	\$ 30.7	\$ 28.3	\$ 30.5	\$ 10.4	\$ 12.0	\$ 5.8	\$ 28.0	\$ 28.4
Net earnings (loss)	\$ 12.9	\$ 16.9	\$ 17.7	\$ 1.5	\$ 6.3	\$ (0.7)	\$ 17.1	\$ 21.7
Earnings available for distribution	\$ 22.0	\$ 26.1	\$ 25.4	\$ 6.4	\$ 9.6	\$ 0.8	\$ 24.4	\$ 29.1
Earnings available for distribution before provision for future income taxes	\$ 22.0	\$ 23.6	\$ 26.3	\$ 6.4	\$ 8.2	\$ 1.3	\$ 23.6	\$ 29.0
Distributable cash	\$ 34.1	\$ 24.2	\$ 25.7	\$ 4.7	\$ 12.0	\$ 9.0	\$ 27.7	\$ 43.5
Distributions paid	\$ 20.5	\$ 20.6	\$ 20.5	\$ 20.5	\$ 20.6	\$ 20.5	\$ 20.5	\$ 20.6
<i>\$ per common share³</i>								
Basic and diluted net earnings (loss)	\$ 0.02	\$ 0.07	\$ 0.06	\$ (0.19)	\$ (0.14)	\$ (0.26)	\$ 0.05	\$ 0.11
<i>\$ per Stapled Unit³</i>								
Basic and diluted earnings available for distribution	\$ 0.29	\$ 0.34	\$ 0.33	\$ 0.08	\$ 0.13	\$ 0.01	\$ 0.32	\$ 0.38
Earnings available for distribution before provision for future income taxes								
- basic	\$ 0.29	\$ 0.31	\$ 0.35	\$ 0.08	\$ 0.11	\$ 0.02	\$ 0.31	\$ 0.38
- diluted	\$ 0.29	\$ 0.31	\$ 0.34	\$ 0.08	\$ 0.11	\$ 0.02	\$ 0.31	\$ 0.38
Basic and diluted distributable cash	\$ 0.45	\$ 0.32	\$ 0.34	\$ 0.06	\$ 0.15	\$ 0.12	\$ 0.36	\$ 0.57
Distributions paid	\$ 0.27	\$ 0.27	\$ 0.27	\$ 0.27	\$ 0.27	\$ 0.27	\$ 0.27	\$ 0.27

Accounting Policy Change

Effective January 1, 2004, the Company adopted the recommendations of the Canadian Institute of Chartered Accountants' (CICA) Handbook Section 3110 – *Asset Retirement Obligations*. Section 3110 establishes standards for the recognition, measurement and disclosure of liabilities for asset retirement obligations and the associated asset retirement costs. Under this new standard, asset retirement obligations must be recognized at their fair value in the period in which they are incurred if a reasonable estimate of the fair value can be made, with fair value of a

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.

liability determined with reference to the present value of estimated future cash flows. This standard changed the Company's accounting for silviculture liabilities accrued for future reforestation costs. This change in accounting policy has been applied retroactively, however, there has been no material effect on the Company's consolidated financial statements.

TimberWest's asset retirement obligations at June 30, 2004, of \$5.2 million relate to silviculture liabilities accrued for future reforestation costs. Revisions to this liability could occur due to changes in estimated costs, timing of expenditures or possible new regulations related to reforestation, but would not be expected to be material.

Future Accounting Standard Change

In 2001, the CICA Accounting Standards Board ("AcSB") commenced a project to amend the requirements in CICA Handbook Section 3860 – *Financial Instruments - Disclosure and Presentation*, concerning the balance sheet presentation of financial instruments, or their components, as liabilities or equity. The project was undertaken to improve consistency with guidance issued by both the US Financial Accounting Standards Board and the International Accounting Standards Board. Standards issued by each of these agencies require obligations that may be settled at the issuer's discretion by the issuance of its own equity instruments be presented as liabilities and not as equity.

In June 2003, the AcSB issued an exposure draft of a proposed Handbook revision that would require obligations that may be settled at the issuer's option by a variable number of the issuer's own equity instruments to be presented as liabilities. In November 2003, the AcSB approved this revision to Section 3860. The revision is effective for all fiscal years beginning on or after November 1, 2004.

The revision to Section 3860 will have a considerable effect on the financial statement presentation of the Company's Stapled Units and the distributions paid thereon, despite the fact that the Company's financial condition and economic underpinnings remain unchanged. The calculation of distributable cash generated by the Company will not be affected by this revision.

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

Given that the number of shares required to retire the Subordinate Note component is not fixed, the revision to Section 3860 will require that the Company reclassify the Series A Subordinate Note component of the Stapled Unit from equity to liabilities. Had the revision to Section 3860 been implemented by the Company at the end of the second quarter of 2004, the reclassification of the Subordinate Note component of the Stapled Unit from equity to liabilities at June 30, 2004, would have been \$686.7 million.

Further, holders of the Company's Stapled Units are entitled to annual interest payments on the Subordinate Note component of approximately \$1.08 per Stapled Unit. For the same reason that the Subordinate Note component is currently classified as equity on the Company's financial statements, interest payments on Stapled Units are currently charged directly to retained earnings, on an after-tax basis, as a distribution similar to dividends on common shares. The revision to Section 3860 will require distributions on Stapled Units to be reported, on a pre-tax basis, as an interest expense on the statement of operations. This revision also requires the tax benefit provided by the distributions to be reported as a component of the income tax provision on the statement of operations. Distributions on Stapled Units for the second quarter of 2004 were \$20.6 million and the tax benefit recognized thereon was \$7.4 million. Year to date, distributions on Stapled units were \$41.2 million and the tax benefit recognized thereon was \$14.7 million. Had the revision to Section 3860 been implemented by the Company at the end of the second quarter of 2004, a net charge to earnings of \$13.2 million and \$26.5 million would have been required for each of the three and six month periods ended June 30, 2004, respectively.

Pension Valuation

The triennial actuarial valuation of the Company's pension obligations was completed during the first quarter of 2004. The valuation identified a going-concern deficit of \$3.9 million and a solvency deficit of \$5.1 million for the defined benefit segment of the Company's pension benefit plans. Based on the results of the valuation, the



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Company is required to fund annual current service costs of approximately \$1.4 million, including \$1.1 million for required contributions under the defined contribution segment and \$0.3 million for required contributions under the defined benefit segment. In addition, the Company is paying \$0.8 million to fund the \$5.1 million solvency deficit in the defined benefit segment. The incremental cash contribution related to pension expense that will be deducted from distributable cash for 2004 is approximately \$2.2 million.

Outlook

Overall, TimberWest expects a fairly stable back half of the year in its end markets. In Japan, demand for logs and lumber are expected to continue to be solid as economic reports indicate wood based housing starts should continue at a slightly higher pace than last year. A log shortage in the domestic market due to weather related logging curtailments should keep supply in balance with demand.

Delivered prices for logs in Japan from all major supply regions continue at levels higher than last year. Japanese sawmillers cutting imported logs had a difficult second quarter due to higher log prices, higher ocean freight and a weakening yen. Whether or not Japanese sawmillers are successful in driving down log prices will depend on the availability of supply. At this time it appears that the second growth fir prices, supported by the strength of the domestic US market, should be stable in the near term while hemlock prices are likely to decline as there is a somewhat higher supply of hemlock available.

High levels of demand sustained by high lumber prices in the second quarter resulted in stronger log prices on the US West Coast during the second quarter in spite of increased harvest activity. While lumber prices weakened toward the end of the second quarter the price of logs has not changed and with the logging curtailments during the summer due to fire risk, log prices are expected to be stable for fir and hemlock logs.

On the cost side of the business, the Company will continue its efforts on Operations Excellence and expects to see costs continue to improve. The certainty provided by the new Coast Master Agreement with the IWA will allow the Company to proceed with its plans to move the harvesting part of its business to IWA certified contractors such that all of these operations are contracted out by year end.

The Company expects hot, dry weather conditions to persist throughout the summer which could cause logging curtailments. In spite of this, the Company still expects to log its planned private land harvest level of 2.5 million m³ for the year.

Both capital expenditures and real estate sales are expected to be higher in the second half of the year than in the first half, but still well within normal levels.

Finally, TimberWest expects to generate distributable cash from operations that will exceed its distribution requirements for 2004 and cover its restructuring costs, with the proceeds from the sale of TFL 46 having paid down debt. TimberWest continues to believe that with the forest policy changes underway and a more flexible collective agreement in place conditions are improving on the Coast for the industry and the Company.

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, labour relations, 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.

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		Six months ended	
	June 30, 2004	June 30, 2003	June 30, 2004	June 30, 2003
Net sales	\$ 131.4	\$ 109.3	\$ 233.0	\$ 235.9
Operating costs and expenses:				
Cost of products sold	97.6	92.1	164.8	181.8
Depreciation, depletion and amortization	2.5	2.6	5.4	5.2
Selling, administrative and other	2.9	4.2	6.4	8.0
	103.0	98.9	176.6	195.0
Operating earnings	28.4	10.4	56.4	40.9
Interest expense	4.0	3.8	8.1	7.8
Amortization of deferred financing costs	0.4	0.3	0.7	0.7
Other income	(5.0)	(0.3)	(5.2)	(0.7)
	(0.6)	3.8	3.6	7.8
Earnings before income taxes	29.0	6.6	52.8	33.1
Income tax expense (note 3)	7.3	5.1	14.0	13.9
Net earnings	\$ 21.7	\$ 1.5	\$ 38.8	\$ 19.2
<i>Basic and diluted earnings (loss) per common share</i> <i>(note 4)</i>	\$ 0.11	\$ (0.19)	\$ 0.16	\$ (0.12)

See accompanying notes to unaudited interim consolidated financial statements.

TIMBERWEST FOREST CORP.

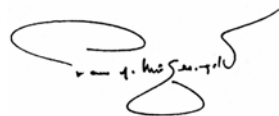
Consolidated Balance Sheets

(in millions of dollars)

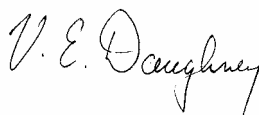
	As at June 30, 2004 <i>Unaudited</i>	As at December 31, 2003
Assets		
Current assets:		
Accounts receivable	\$ 24.8	\$ 15.4
Inventories	60.7	45.7
Prepaid expenses and other current assets	6.2	6.4
Future income taxes	2.6	2.6
	94.3	70.1
Property, plant and equipment, net (note 5)	1,339.4	1,356.5
Other assets	14.4	14.3
	\$ 1,448.1	\$ 1,440.9
Liabilities and Unitholders' Equity		
Current liabilities:		
Revolving credit facilities (note 6)	\$ 29.2	\$ 60.0
Accounts payable and accrued liabilities	53.1	29.5
Distribution payable	20.6	20.5
	102.9	110.0
Debentures	195.0	195.0
Long-term silviculture liability	3.6	4.6
Non-pension post-retirement benefits	26.3	25.3
Future income taxes	229.6	230.5
	557.4	565.4
Unitholders' equity:		
Stapled Units, consisting of Series A Subordinate Notes, preferred shares and common shares	873.4	870.6
Contributed surplus	0.3	0.2
Retained earnings	17.0	4.7
	890.7	875.5
	\$ 1,448.1	\$ 1,440.9

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		Six months ended	
	June 30, 2004	June 30, 2003	June 30, 2004	June 30, 2003
Cash provided by (used in):				
Operating activities:				
Earnings before income taxes	\$ 29.0	\$ 6.6	\$ 52.8	\$ 33.1
Cash income taxes (note 3)	-	(0.2)	(0.2)	(0.4)
	29.0	6.4	52.6	32.7
Items not involving cash:				
Depreciation, depletion and amortization	2.9	2.9	6.1	5.9
Gain on sale of property, plant and equipment	(4.9)	(0.3)	(5.4)	(1.3)
Other non-cash items	(0.7)	0.3	-	0.3
	26.3	9.3	53.3	37.6
Changes in non-cash working capital:				
Accounts receivable	2.1	(2.0)	(9.4)	(6.0)
Inventories	(1.1)	3.2	(15.0)	(5.5)
Prepaid expenses and other working capital	-	(0.3)	0.2	0.2
Accounts payable and accrued liabilities	0.7	(10.0)	23.6	(3.7)
	28.0	0.2	52.7	22.6
Financing activities:				
Distributions paid to unitholders	(20.6)	(20.5)	(41.1)	(41.0)
Issuance of Stapled Units on exercise of options	0.9	0.1	2.8	0.5
Revolving credit facilities	(23.8)	26.1	(30.8)	132.8
Redemption of 6.5% debentures	-	-	-	(106.5)
	(43.5)	5.7	(69.1)	(14.2)
Investing activities:				
Proceeds from sale of property, plant and equipment	17.2	0.8	18.6	3.9
Additions to property, plant and equipment	(1.5)	(7.5)	(2.0)	(15.0)
Other assets	(0.2)	0.8	(0.2)	1.7
	15.5	(5.9)	16.4	(9.4)
Increase (decrease) in cash	-	-	-	(1.0)
Cash, beginning of period	-	-	-	1.0
Cash, end of period	\$ -	\$ -	\$ -	\$ -
Supplemental information:				
Interest paid	\$ 7.3	\$ 6.2	\$ 8.1	\$ 10.3
Income taxes paid	\$ 0.2	\$ 0.3	\$ 0.4	\$ 0.5

See accompanying notes to unaudited interim consolidated financial statements.

TIMBERWEST FOREST CORP.

Consolidated Statements of Unitholders' Equity

(in millions of dollars)
Unaudited

	Stapled Units		Contributed surplus	Retained earnings	Total unitholders' equity
	Number	Amount			
For the six months ended June 30, 2003:					
Balance, December 31, 2002	76,192,788	\$ 870.1	\$ 0.1	\$ 44.6	\$ 914.8
Issuance of Stapled Units on exercise of options	53,334	0.5	-		0.5
Net earnings	-	-	-	19.2	19.2
Interest on Series A Subordinate Notes	-	-	-	(41.1)	(41.1)
Income tax benefit thereon (note 3)	-	-	-	12.6	12.6
Balance, June 30, 2003	76,246,122	\$ 870.6	\$ 0.1	\$ 35.3	\$ 906.0
For the six months ended June 30, 2004:					
Balance, December 31, 2003	76,246,122	\$ 870.6	\$ 0.2	\$ 4.7	\$ 875.5
Issuance of Stapled Units on exercise of options	229,450	2.8	-	-	2.8
Stapled Unit option awards	-	-	0.1	-	0.1
Net earnings	-	-	-	38.8	38.8
Interest on Series A Subordinate Notes	-	-	-	(41.2)	(41.2)
Income tax benefit thereon (note 3)	-	-	-	14.7	14.7
Balance, June 30, 2004	76,475,572	\$ 873.4	\$ 0.3	\$ 17.0	\$ 890.7

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, 2004 and 2003

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, 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, 2003, except for a change in accounting for asset retirement obligations as described in note 2.

2. Accounting Policy Change

Effective January 1, 2004, the Company adopted the recommendations of the Canadian Institute of Chartered Accountants' (CICA) Handbook Section 3110 – *Asset Retirement Obligations*. Section 3110 establishes standards for the recognition, measurement and disclosure of liabilities for asset retirement obligations and the associated asset retirement costs. Under this new standard, asset retirement obligations must be recognized at their fair value in the period in which they are incurred if a reasonable estimate of the fair value can be made, with fair value of a liability determined with reference to the present value of estimated future cash flows. This standard changed the Company's accounting for silviculture liabilities accrued for future reforestation costs. This change in accounting policy has been applied retroactively, however, there has been no material effect on the Company's consolidated financial statements.

The Company may have additional asset retirement obligations, however, the recommendations of this new standard have not been applied to assets with indeterminate useful lives as the associated asset retirement obligations are not reasonably estimable and therefore the fair value of the liabilities cannot be established.

3. Income Taxes

	Three months ended		Six months ended	
	June 30, 2004	June 30, 2003	June 30, 2004	June 30, 2003
Current income tax expense				
Large corporation tax	\$ -	\$ 0.2	\$ 0.2	\$ 0.4
Income tax benefit on interest on Series A Subordinate Notes charged directly to distributions	7.4	4.9	14.7	12.6
	7.4	5.1	14.9	13.0
Future income tax expense (recovery)	(0.1)	-	(0.9)	0.9
	\$ 7.3	\$ 5.1	\$ 14.0	\$ 13.9

TIMBERWEST FOREST CORP.

Notes to Unaudited Interim Consolidated Financial Statements

For the three and six months ended June 30, 2004 and 2003

4. Earnings per Share

	Three months ended		Six months ended	
	June 30, 2004	June 30, 2003	June 30, 2004	June 30, 2003
Net earnings	\$ 21.7	\$ 1.5	\$ 38.8	\$ 19.2
Less: Distributions on Series A Subordinate Notes	(20.6)	(20.6)	(41.2)	(41.1)
Tax benefit thereon	7.4	4.9	14.7	12.6
	(13.2)	(15.7)	(26.5)	(28.5)
Earnings (loss) attributable to common shares	\$ 8.5	\$ (14.2)	\$ 12.3	\$ (9.3)
Basic weighted average number of common shares	76,438,443	76,242,019	76,373,264	76,222,657
Incremental common shares from potential exercise of options	146,487	74,289	116,132	81,070
Diluted weighted average number of common shares	76,584,930	76,316,308	76,489,396	76,303,727
Basic and diluted earnings (loss) per common share	\$ 0.11	\$ (0.19)	\$ 0.16	\$ (0.12)

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.

5. Property, Plant and Equipment

Property, plant and equipment at June 30, 2004, include \$1,218.4 million carrying value for private timberlands. This amount includes a valuation increase adjustment of \$390.8 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.

6. Revolving Credit Facilities

On March 2, 2004, the Company completed and received a renewal of short-term financing from a Canadian bank. The renewed financing consists of an unsecured demand bank guarantee facility in the amount of \$16.0 million and an unsecured 364-day committed revolving facility in the amount of \$40.0 million that is due on March 1, 2005. Under the 364-day facility, funds are available to the Company in both Canadian and US dollars by way of adjusted prime rate based loans, Canadian dollar bankers' acceptances and letters of credit or guarantee.

On May 26, 2004, the Company completed and received a renewal of short-term financing from a Canadian bank. The renewed financing consists of an unsecured 364-day committed revolving facility in the amount of \$40.0 million that is due on May 25, 2005. Under the 364-day facility, funds are available to the Company by way of Canadian dollar prime rate based loans, bankers' acceptances, letters of credit or guarantee and US dollar LIBOR.

As at June 30, 2004, the Company had borrowings of \$29.2 million on the Company's two \$40.0 million unsecured 364-day revolving facilities. As at June 30, 2004, there were no borrowings on the Company's \$125.0 million unsecured revolving credit facility.

TIMBERWEST FOREST CORP.

Notes to Unaudited Interim Consolidated Financial Statements

For the three and six months ended June 30, 2004 and 2003

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. The triennial actuarial valuation of the Company's pension obligations was completed during the first quarter of 2004. The valuation identified a going-concern deficit of \$3.9 million and a solvency deficit of \$5.1 million for the defined benefit segment of the Company's pension benefit plans. Based on the results of the valuation, the Company is required to fund annual current service costs of approximately \$1.4 million, including \$1.1 million for required contributions under the defined contribution segment and \$0.3 million for required contributions under the defined benefit segment. In addition, the Company is paying \$0.8 million to fund the \$5.1 million solvency deficit in the defined benefit segment.

For the three months ended June 30, 2004, the Company recorded an expense of \$0.8 million for pension benefit costs (2003 – \$0.9 million) and made cash payments of \$0.2 million to fund current service costs (2003 – nil). For the six months ended June 30, 2004, the Company recorded an expense of \$1.6 million for pension benefit costs (2003 – \$1.8 million) and made cash payments of \$0.5 million to fund current service costs (2003 – nil).

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 June 30, 2004, the Company recorded an expense of \$0.9 million for non-pension benefit costs (2003 – \$0.7 million) and made cash payments of \$0.5 million to fund current and future benefit costs (2003 – \$0.3 million). For the six months ended June 30, 2004, the Company recorded an expense of \$1.8 million for non-pension benefit costs (2003 – \$1.4 million) and made cash payments of \$1.0 million to fund current and future benefit costs (2003 – \$0.5 million).

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 June 30, 2004, no Stapled Unit options were granted (2003 – nil). For the six months ended June 30, 2004, 313,220 Stapled Unit options were granted at an average exercise price of \$12.21 (2003 – 267,047 Stapled Unit options were granted at an average exercise price of \$11.90).

The Company has applied the fair value method of accounting for Stapled Unit option grants awarded on or after January 1, 2003. The compensation cost for the 313,220 Stapled Unit options granted between January 1, 2004 and June 30, 2004 is \$269,000 (2003 – 267,047 Stapled Unit options were granted with a compensation cost of \$285,000). As this amount is amortized against earnings over the three-year vesting period of the underlying options, charges of \$46,000 and \$79,000 were recognized in net earnings for the three and six month periods ended June 30, 2004, respectively, (2003 – \$24,000 and \$40,000, respectively,) with a corresponding credit to contributed surplus. 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:

	2004	2003
Risk-free interest rate	4.5%	4.3%
Expected life (years)	5.0	5.0
Expected volatility	20.6%	25.3%
Dividend yield	8.6%	9.1%
Number of options granted	313,220	267,047
Fair value of options granted (dollars)	\$0.86	\$1.07

TIMBERWEST FOREST CORP.

Notes to Unaudited Interim Consolidated Financial Statements

For the three and six months ended June 30, 2004 and 2003

8. Stock-based Compensation Plans (continued)

Had the Company used the fair value method to account for Stapled Unit options granted during 2002, there would have been no adjustment to net earnings and earning per common share reported for the three and six month periods ended June 30, 2004 and 2003 as the stock-based compensation cost related to these options was nominal.

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 June 30, 2004, \$0.4 million has been accrued for awards granted under this plan (2003 – \$0.3 million) and \$0.3 million has been amortized against earnings for the quarter (2003 – \$0.2 million). For the six months ended June 30, 2004, \$0.7 million has been accrued for awards granted under this plan (2003 – \$0.5 million) and \$0.6 million has been amortized against earnings (2003 – \$0.5 million).

During the three months ended June 30, 2004, a total of 79,250 Stapled Unit options with an average exercise price of \$11.18 were exercised (2003 – 6,667 Stapled Unit options with an exercise price of \$8.91 were exercised and 2,734 Stapled Unit options with an exercise price of \$12.84 were cancelled). For the six months ended June 30, 2004, a total of 229,450 Stapled Unit options with an average exercise price of \$12.10 were exercised (2003 – 53,334 Stapled Unit options with an exercise price of \$8.91 were exercised and 8,001 Stapled Unit options with an average exercise price of \$12.97 were cancelled).

9. Sale of Tree Farm Licence 46 (TFL 46)

On May 6, 2004, the Company completed the sale of its southern Vancouver Island public land operations, referred to as TFL 46. TFL 46 represented part of the Company's public land logging business, included timber rights to an annual allowable cut of approximately 500,000 m³ on 76,574 hectares of Crown land, and had been operated by TimberWest as part of its Honeymoon Bay operation on southwest Vancouver Island.

The sale price for these assets was \$17.9 million. Under the terms of the sale, silviculture liabilities of \$0.4 million were assumed by the purchaser and leased equipment with a value of \$6.0 million was transferred to the purchaser, relieving the Company of commitments for future payments under operating leases in the amount of \$2.6 million. The gain on the sale of these operations has been included in other income on the consolidated statements of operations.

10. Business Transformation

On June 24, 2004, the Company announced a plan to transform its business model through a restructuring of the Company's log harvesting operations and a move to contract out all logging activities. Currently, 50 percent of the Company's log harvesting is performed by contractors. Under the transformation plan, the Company will contract out the remainder of its logging activities to unionized contractors on a competitive-bid basis and anticipates completing this process by the end of fiscal 2004.

Operating earnings for the three and six month periods ended June 30, 2004, reflect a provision of \$2.7 million in cost of products sold for costs relating to this restructuring.

TIMBERWEST FOREST CORP.

Supplemental Information

Unaudited

	Three months ended		Six months ended	
	June 30, 2004	June 30, 2003	June 30, 2004	June 30, 2003
Sales by Product				
<i>(in millions of dollars)</i>				
Logs	\$ 103.2	\$ 90.3	\$ 182.5	\$ 194.1
Lumber	23.5	14.7	41.1	31.2
Wood chips and other	4.5	3.8	8.3	7.4
Real estate	0.2	0.5	1.1	3.2
	\$ 131.4	\$ 109.3	\$ 233.0	\$ 235.9
Sales Volume				
Logs (<i>thousand m³</i>)	984.7	916.1	1,737.7	1,835.4
Lumber (<i>million fbm</i>)	39.1	33.5	71.2	64.6
Production Volume				
Logs (<i>thousand m³</i>)	1,016.6	852.1	1,936.1	1,744.9
Lumber (<i>million fbm</i>)	43.0	39.5	83.3	75.0
Earnings Before Interest, Taxes, Depreciation and Amortization (EBITDA)*				
<i>(in millions of dollars)</i>				
Net earnings	\$ 21.7	\$ 1.5	\$ 38.8	\$ 19.2
Add:				
Interest expense	4.0	3.8	8.1	7.8
Income tax expense	7.3	5.1	14.0	13.9
Depreciation, depletion and amortization	2.5	2.6	5.4	5.2
Amortization of deferred financing costs	0.4	0.3	0.7	0.7
EBITDA	\$ 35.9	\$ 13.3	\$ 67.0	\$ 46.8

* 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 2.3 million m³ of logs, which can vary in the range of 2.1 million m³ to 2.5 million m³ under our SFI[®] certification, are located on Vancouver Island and predominantly support the growth of Douglas fir forests, a premium species used for structural purposes. 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 0.8 million m³ of logs per year and operates a lumbermill located near Campbell River, BC. In addition, approximately 6,000 hectares of the Company's private forest lands have been identified as having greater value as real estate properties and are progressively being made available for higher uses.

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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

