



# Q-2

2005

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**Second Quarter  
Interim Report**

For the three and  
six months ended  
June 30, 2005

# TIMBERWEST FOREST CORP.

## To Our Unitholders,

Distributable cash generated for the second quarter of 2005 was a disappointing \$15.4 million, or \$0.20 per unit. On a year to date basis, we have generated distributable cash of \$39.3 million or \$0.51 per unit. This is lower than what transpired during the first six months of last year when we generated \$71.2 million of distributable cash or \$0.93 per unit. The decline is attributable to lower sales realizations and sales volumes in our logging business, where there was a year-over-year deterioration of \$17.3 million in earnings on a year to date basis. Our Elk Falls lumbermill operated at a loss during the first half of 2005, with current year results in that segment of the business \$6.0 million worse than for the equivalent prior year period. In addition, year to date 2004 distributable cash included \$16.7 million related to the sale of TFL 46.

Year-over-year log sales realizations for the first half of 2005 were lower in all markets. The domestic log market is very soft and is suffering from declines in both volumes and realizations. During the second quarter of 2005, the domestic sawmilling sector experienced significant market-related downtime, which dramatically reduced demand for logs. Hemlock lumber sales into Japan, which is the largest lumber export market for the coast of BC, were very low with the market for green and dried hemlock significantly oversupplied and facing considerable competition from other supply regions. As a result, we have experienced the lowest domestic log sales realizations in the Company's history.

Domestic log sales volumes during the first half of 2005 were down 233,100 m<sup>3</sup>, or 20% from the equivalent prior year period. We therefore shifted our product focus to increase the volume of logs sorted for export markets. The result was that export volumes were up by 23%, or 131,700 m<sup>3</sup> during the first half of 2005 compared to the same period in 2004. The extra volumes went to Korea and the US, with Korean shipments growing almost threefold and US volumes increasing 35% compared to this time last year.

Log sales realizations on sales to Japan were 12% weaker for the first half of 2005 compared to the same time in the previous year as a result of a weaker species and end use sort mix and less favourable exchange rates. However, we have been able to keep sales volumes moving into Japan at a comparable pace to last year. Increased supply, the stronger Canadian dollar and a weaker sales mix have eroded our sales realizations on log sales in to the US by some 15% year to date.

Like other whitewood mills on the coast of BC, our Elk Falls lumbermill has struggled this year in the face of the oversupply situation in Japan. As a result, the mill took five weeks of downtime during the second quarter of 2005. Where possible, the mill diverted production to products for other markets, but struggled to do so profitably. The mill incurred cash losses on both a quarterly and year to date basis.

Logging costs of production continue to track favourably and are below last year's level. We are pleased with our contractor's performance under our new business model and we are striving to reduce costs further. During the quarter we took a \$2.0 million restructuring charge and eliminated additional salaried positions in the timberland and corporate overhead segments of our business. This restructuring was the result of the business transformation program undertaken earlier this year, when we contracted out all remaining road building and timber harvesting operations. Our new business model allows us to operate with fewer salaried positions and we expect to save about \$1.6 million per year with this restructuring.

Safety and environmental stewardship remain a strong focus for our organization and are areas that we monitor on an on-going basis in the operations that we have contracted out. Safety performance has slipped in a few of the contract operations during the second quarter. TimberWest has commissioned external safety program audits in these operations. In addition to confirming regulatory compliance, audit results and recommendations for improvement will be provided to contractors.

During the quarter, KPMG Performance Registrar Inc., our external Sustainable Forestry Initiative (SFI<sup>®</sup>) auditor, completed its assessment and confirmed that the Company's long term harvest level determination of 2.5 million m<sup>3</sup> on the Company's private timberlands can be maintained for the next 50 years, after which it declines to 2.36 million m<sup>3</sup>, and that the Company's analysis meets all SFI<sup>®</sup> requirements. We are very pleased with this result and I wish to thank all of the TimberWest staff who worked hard to get this done.

While real estate sales on a year to date basis have been low, we expect these to increase for the balance of the year and expect to sell real estate at a higher level than we have for a number of years. We are experiencing very strong real estate markets on some parts of Vancouver Island and we intend to participate in these markets in the current year.

Also during the quarter, three officers of the Company left the organization. John Mann, our Vice President Timberlands Operations retired. John was instrumental in delivering the significant cost reduction program that we embarked on almost four years ago as part of our Operations Excellence strategy. John's responsibilities have

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been assumed by Gerry Young, who was Assistant Vice President, Timberland Operations. Gerry brings a wealth of experience as a seasoned timberland operator, having been with the Company and its predecessor companies for over 35 years. The Assistant Vice President, Timberland Operations role will not be replaced.

Mark Stock, our Vice President of Human Resources and Information Technology has also left the Company. Mark was heavily involved in the previous round of labour negotiations and the resulting contracting out initiative that we completed at the beginning of the year. Now that our new business model has been fully implemented a significant component of Mark's role has ended. We will therefore not replace his position. Bev Park, our Vice President Finance and CFO, has assumed responsibility for Mark's portfolio.

Finally, John Hanbury, our Treasurer has also left the Company. John did a tremendous job of developing the treasury function at TimberWest over the past six years. We will not be replacing this position, but rather will fold these responsibilities into the existing finance function.

All three of these people have made a significant contribution to the value of TimberWest during their time with us and we wish them well in their future endeavours.

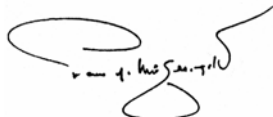
At this time, we are pleased to announce TimberWest's next quarterly distribution of \$0.269 per Stapled Unit, payable on October 15, 2005 to unitholders of record on October 1, 2005. Since TimberWest's inception in July 1997, including the distribution paid on July 15, 2005, the Company has distributed in excess of \$608 million to its unitholders.

As we look to the balance of the year, we continue to be concerned about all of our markets. While we will see record log exports this year, it will be with a weaker overall sales mix than last year. Economic reports indicate that the US housing market will begin to soften in the latter part of 2005. This market, which is currently oversupplied, is expected to weaken as demand falls. Already, this situation has started to back up into log pricing. We expect Japan will continue to be stable and that the rest of Asia will pick up additional volumes, although with a weaker mix of products for the balance of the year. In our domestic market, coastal restructuring is well underway, however, it will take some time for the sawmilling industry to close inefficient mills, invest new capital and produce the higher-value products customers want. As a consequence, we expect the domestic log market to remain soft through the balance of the year. Although resolution of the softwood lumber dispute with the US could improve the situation, particularly where coastal cedar is concerned, we are not optimistic that a resolution is close.

Finally, I want to discuss a new initiative aimed at improving the value of TimberWest. The Company has identified low margin, low productivity stands throughout its private timberland base. We are embarking on several courses of action to address this. We are exploring the potential of selling or trading of some of this land for other uses and we are implementing a plan to increase the harvest level in other of these areas to give us the opportunity to re-establish the low margin, low productivity stands with better stock. In 2005, we anticipate increasing the harvest level by about 500,000 m<sup>3</sup> to target and turn over these stands. We may also increase the harvest level by a like amount in the next three to five years, depending on the success we have with selling or trading this land and the conditions of the markets. We have run this potential additional harvest through our growth and yield model and find that taking low-productivity stands out at a faster rate, even for five years, will have no effect on our long run sustainable yield over a 50 year period. The Company will seek SFI<sup>®</sup> certification on its long run sustainable yield calculation based on this modification. This however, means we will have a weaker sales mix while carrying out this initiative.

Taking all of these factors into consideration, we expect TimberWest to meet its distributable cash requirements for the year.

On behalf of the Board of Directors



Paul J. McElligott  
President and Chief Executive Officer

Vancouver, British Columbia  
August 4, 2005

# TIMBERWEST FOREST CORP.

## Management's Discussion and Analysis

**For the three and six months ended June 30, 2005 and 2004**

Management's discussion and analysis supplements, but does not form part of, the unaudited interim consolidated financial statements of TimberWest Forest Corp. ("TimberWest" or "the Company") and the notes thereto for the second quarter of 2005. 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 2005 relative to the second quarter and year to date of 2004, and that have affected the Company's financial position as at June 30, 2005, relative to December 31, 2004. Factors that could affect future operations are also discussed. These factors may be affected by known and unknown risks and uncertainties that may cause the actual future results of the Company to be materially different than those expressed or implied in this discussion. These risks and uncertainties are described herein and in the management's discussion and analysis contained in the Company's 2004 Annual Report.

TimberWest's unaudited interim consolidated financial statements and the accompanying notes included within this interim report include the accounts of TimberWest Forest Corp. and its subsidiaries. The unaudited interim consolidated financial statements and the accompanying notes are prepared in accordance with Canadian generally accepted accounting principles (GAAP) and are expressed in Canadian dollars.

This management's discussion and analysis has been prepared based on information available as at August 3, 2005.

Additional information relating to TimberWest, including the Company's most recent Annual Information Form and other statutory reports, can be found on the System for Electronic Document Analysis and Retrieval (SEDAR) at <http://www.sedar.com>.

### Distributable Cash

(in millions of dollars)	Three months ended		Six months ended	
	June 30, 2005	June 30, 2004	June 30, 2005	June 30, 2004
Net earnings (loss)	\$ (6.7)	\$ 8.5	\$ (9.1)	\$ 12.3
Interest on Series A Subordinate Notes owned by unitholders	20.8	20.6	41.6	41.2
Earnings available for distribution	14.1	29.1	32.5	53.5
Future income tax expense (recovery)	(1.1)	(0.1)	0.1	(0.9)
Earnings available for distribution before provision for future income taxes	13.0	29.0	32.6	52.6
Add (deduct):				
Depreciation, depletion and amortization	2.6	2.9	4.7	6.1
Proceeds from sale of property, plant and equipment	3.8	17.2	30.6	18.6
Loss (gain) on sale of property, plant and equipment	0.5	(4.9)	(6.3)	(5.4)
Additions to property, plant and equipment	(4.5)	(1.5)	(22.3)	(2.0)
Other non-cash items	—	0.8	—	1.3
	2.4	14.5	6.7	18.6
Distributable cash	\$ 15.4	\$ 43.5	\$ 39.3	\$ 71.2
Cash distributions paid	\$ 20.8	\$ 20.6	\$ 41.5	\$ 41.1

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Per Stapled Unit amounts:

<i>(in dollars)</i>	Three months ended		Six months ended	
	June 30, 2005	June 30, 2004	June 30, 2005	June 30, 2004
<i>Basic and diluted earnings available for distribution before provision for future income taxes per weighted average Stapled Unit</i>	\$ 0.17	\$ 0.38	\$ 0.42	\$ 0.69
<i>Basic and diluted distributable cash per weighted average Stapled Unit</i>	\$ 0.20	\$ 0.57	\$ 0.51	\$ 0.93
<i>Cash distributions paid per Stapled Unit</i>	\$ 0.27	\$ 0.27	\$ 0.54	\$ 0.54

Earnings available for distribution is comprised of consolidated net earnings (loss) plus interest expensed on Series A Subordinate Notes. The Series A Subordinate Notes are owned by the unitholders and interest thereon is paid to the unitholders, therefore, earnings available for distribution to unitholders reflects earnings before this interest charge.

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

Earnings available for distribution and distributable cash are measures that do not have a standardized meaning prescribed by GAAP and may not be comparable to similar measures presented by other companies. Management believes that the presentation of these measures will enhance an investor's understanding of the Company's operating performance. A reconciliation of net earnings as determined in accordance with GAAP and both earnings available for distribution and distributable cash is provided in the preceding table.

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

	2005	2004	2003	2002	2001	2000
<b>Distributable Cash</b> <i>(in millions of dollars)</i>						
First quarter	\$ 23.9	\$ 27.7	\$ 25.7	\$ 21.2	\$ 25.9	\$ 28.4
Second quarter	15.4	43.5	4.7	10.6	26.7	28.2
Third quarter		35.9	12.0	34.1	14.1	14.1
Fourth quarter		18.1	9.0	24.2	16.8	18.5
	\$ 39.3	\$ 125.2	\$ 51.4	\$ 90.1	\$ 83.5	\$ 89.2
<b>Distributable Cash per Stapled Unit</b> <i>(in dollars)</i>						
First quarter	\$ 0.31	\$ 0.36	\$ 0.34	\$ 0.30	\$ 0.40	\$ 0.41
Second quarter	0.20	0.57	0.06	0.14	0.41	0.42
Third quarter		0.47	0.15	0.45	0.22	0.22
Fourth quarter		0.24	0.12	0.32	0.26	0.29
	\$ 0.51	\$ 1.64	\$ 0.67	\$ 1.21	\$ 1.29	\$ 1.34

## Quarterly Financial Highlights

TimberWest generated distributable cash of \$15.4 million or basic and diluted distributable cash of \$0.20 per weighted average Stapled Unit for the three months ended June 30, 2005, compared to distributable cash of \$43.5 million or basic and diluted distributable cash of \$0.57 per weighted average Stapled Unit for the same period in 2004. The decrease in distributable cash from the prior year period can be attributed to lower operating earnings in the second quarter of 2005, reflecting lower average realizations on log and lumber sales, and to lower net proceeds from the sale of property, plant and equipment in the current year period compared to the same period in 2004 when the Company sold TFL 46 and received cash proceeds of \$16.7 million on this transaction. Earnings

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available for distribution for the second quarter of 2005, before provision for future income taxes, were \$13.0 million or \$0.17 per basic and diluted weighted average Stapled Unit compared to \$29.0 million or \$0.38 per basic and diluted weighted average Stapled Unit for the same quarter in 2004. Sales for the second quarter of 2005 were \$107.6 million compared to sales of \$136.8 million reported for the second quarter of 2004. Operating earnings were \$17.8 million or 17% of sales for the second quarter of 2005 compared to \$28.4 million or 21% of sales for the same period in 2004. As noted previously, the year over year softening of the operating margin primarily reflects lower average realizations on log and lumber sales, which were off 10% and 21%, respectively, compared to the same period last year. Real estate sales for the quarter were \$0.6 million compared to \$0.2 million for the same quarter in 2004. Proceeds from the sale of other property, plant and equipment relates to the sale of harvesting equipment sold at auction during the quarter. Additions to property, plant and equipment include \$4.1 million for lease buyouts and \$0.4 million for normal capital expenditures. Earnings before interest, taxes, depreciation and amortization (EBITDA)<sup>1</sup> for the quarter ended June 30, 2005, were \$19.7 million or \$0.26 per basic and diluted weighted average Stapled Unit compared to \$35.9 million or \$0.47 per basic and diluted weighted average Stapled Unit for the same period in 2004. The quarter ended June 30, 2005 had a net loss of \$6.7 million, equating to a basic and diluted net loss of \$0.09 per weighted average common share, compared to net earnings of \$8.5 million or basic and diluted net earnings of \$0.11 per weighted average common share for the same period in 2004.

## Year to Date Financial Highlights

TimberWest generated distributable cash of \$39.3 million or basic and diluted distributable cash of \$0.51 per weighted average Stapled Unit for the six months ended June 30, 2005, compared to distributable cash of \$71.2 million or basic and diluted distributable cash of \$0.93 per weighted average Stapled Unit for the same period in 2004. This decrease can be attributed to lower operating earnings in the first six months of 2005, reflecting lower average realizations on log and lumber sales compared to the same period in 2004, and lower net cash inflows from year to date property, plant and equipment transactions in 2005, including the net effect of a \$20.3 million increase in capital expenditures and a \$12.0 million increase in proceeds from the sale of property, plant and equipment over the prior year period. Property, plant and equipment transactions for both 2005 and 2004 were unusually large, including the buy-out of leases on company-operated logging equipment for \$17.0 million and the subsequent sale of this leased equipment and other company-owned logging equipment to long-term contractors for proceeds of approximately \$21.4 million as part of the 2005 business transformation initiative, and cash proceeds of \$16.7 million from the sale of TFL 46 in 2004. Year to date, real estate sales were \$2.5 million compared to \$1.2 million for the same period in 2004 and capital expenditures were \$1.2 million compared to \$2.0 million for the same period last year. Earnings available for distribution for the first half of 2005, before provision for future income taxes, were \$32.6 million or \$0.42 per basic and diluted weighted average Stapled Unit compared to \$52.6 million or \$0.69 per basic and diluted weighted average Stapled Unit for the period in 2004. Sales for the first six months of 2005 were \$206.2 million compared to sales of \$242.2 million reported for the first six months of 2004. Operating earnings were \$35.1 million or 17% of sales for the first half of 2005 compared to \$56.4 million or 23% of sales for the same period in 2004. EBITDA for the six months ended June 30, 2005, were \$45.2 million or \$0.59 per basic and diluted weighted average Stapled Unit compared to \$67.0 million or \$0.88 per basic and diluted weighted average Stapled Unit for the same period in 2004. The six months ended June 30, 2005 had a net loss of \$9.1 million, equating to a basic and diluted net loss of \$0.12 per weighted average common share, compared to net earnings of \$12.3 million or basic and diluted net earnings of \$0.16 per weighted average common share for the same period in 2004.

## Subsequent Events

Subsequent to June 30, 2005, the Company finalized arrangements for new credit facilities to take advantage of the current favourable interest rate market.

On July 7, 2005, the Company completed and received long-term financing in the amount of \$65.0 million pursuant to an unsecured revolving facility underwritten by a Canadian Chartered bank, due on July 7, 2010. Under this facility funds are available to the Company in both Canadian and US dollars by way of adjusted prime rate-based loans, bankers' acceptances, LIBOR loans and letters of credit or guarantee. On completion of this financing, the Company's short-term unsecured committed revolving facility for \$40.0 million due on July 31, 2005, was cancelled.

<sup>1</sup> EBITDA is a measure that does not have a standardized meaning prescribed by GAAP and may not be comparable to similar measures presented by other companies. Management believes that the presentation of this measure will enhance an investor's understanding of the Company's operating performance. A reconciliation of net earnings as determined in accordance with GAAP and EBITDA is provided in the supplemental information appended to this interim report.

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In addition, on July 28, 2005, the Company completed and received additional long-term financing in the amount of \$100.0 million pursuant to an unsecured revolving facility underwritten by a syndicate of Canadian Chartered banks, due on July 28, 2010. Under this facility funds are available to the Company in both Canadian and US dollars by way of adjusted prime rate-based loans, US base rate-based loans, bankers' acceptances, LIBOR loans and letters of credit or guarantee. On completion of this financing, the Company's unsecured revolving credit facility for \$125.0 million due on December 31, 2006, was cancelled.

## Highlights and Significant Transactions

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

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

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

As a result of the amendment to Section 3860, the Series A Subordinate Note component of the Stapled Unit can no longer be classified as equity and is now presented as a liability on the Company's consolidated balance sheets. As at June 30, 2005, the reclassification from equity to liabilities was \$693.7 million. This accounting change has been applied on a retroactive basis, resulting in a \$690.5 million reclassification from equity to liabilities as at December 31, 2004.

In addition, interest payments on the Series A Subordinate Note component of the Stapled Unit can no longer be presented as a direct charge to retained earnings, on an after-tax basis, similar to dividends on common shares. The amendment to Section 3860 requires that these interest payments be reported, on a pre-tax basis, as an interest expense in the statement of operations. For the three and six month periods ended June 30, 2005, interest payments on the Series A Subordinate Notes of \$20.8 million and \$41.6 million, respectively, (2004 – \$20.6 million and \$41.2 million, respectively,) have been reported as an interest expense in the consolidated statements of operations.

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

### ***Business Transformation***

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

The Company completed the final phase of the business transformation initiative early in the first quarter of 2005. This involved the buy-out of leases on company-operated logging equipment for \$17.0 million, and the subsequent sale of this leased equipment and other company-owned logging equipment to long-term contractors for proceeds of approximately \$21.4 million. Other income for the six months ended June 30, 2005 includes a gain on disposal of logging equipment of approximately \$4.4 million.

This new business model allows the Company to operate with fewer salaried positions. During the second quarter of 2005, the Company recorded a \$2.0 million restructuring charge and eliminated additional salaried positions in the timberland and corporate overhead components of its business. The Company expects that this restructuring will provide savings of \$1.6 million per year.

Going forward, this initiative is expected to result in further cost reductions and improved flexibility, both of which should improve the competitiveness of the organization over time.

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

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



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In the first quarter of 2005, TimberWest received \$3.7 million in compensation for the loss of logging rights and for improvements made to these areas by the Company, including roads and bridges associated with the areas being reallocated from these tenures.

### ***Increase in Long Run Sustainable Harvest***

On October 19, 2004, the Company announced an increase in the long run sustainable harvest on its private timberlands, from 2.3 million m<sup>3</sup> to 2.5 million m<sup>3</sup> on the basis of improvements in the underlying growth rates of the forest inventory due to yield increases from a range of silviculture practices.

During the second quarter of 2005, the Company's external Sustainable Forestry Initiative (SFI®) auditor, KPMG Performance Registrar Inc., completed its assessment of the Company's determination and confirmed that the Company's long term harvest level determination of 2.5 million m<sup>3</sup> on the Company's private timberlands can be maintained for the next 50 years, after which it declines to 2.36 million m<sup>3</sup>, and that the Company's analysis meets all SFI® requirements.

To improve the value of the Company, TimberWest is commencing an initiative to further increase the harvest level on its private lands through improved forest management. This year and, markets permitting, over the next three to five years, the Company anticipates increasing private land harvests by about 500,000 m<sup>3</sup>, to approximately 3.0 million m<sup>3</sup> per year. This additional harvest will come from low-margin, low-productivity stands where there is an opportunity to re-establish these stands with better stock. The Company has run this additional harvest volume through its growth and yield model and indications are that taking low-productivity stands out at a faster rate will have no effect on the Company's long run sustainable yield over a 50-year period. The Company will seek SFI® certification on its long run sustainable harvest calculation based on this modification.

### **Cash Distribution**

On August 4, 2005, TimberWest announced a distribution of \$0.269 per Stapled Unit, payable October 15, 2005, to unitholders of record on October 1, 2005. From inception to June 30, 2005, the Company has generated distributable cash of \$636.1 million while, including the July 15, 2005 distribution of \$20.8 million, the Company has paid out \$608.4 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, 2005, were \$80.1 million, down 22% from log sales of \$103.2 million for the quarter ended June 30, 2004. This decrease reflects the combined effects of a 14% decrease in the volume of logs sold, with 840,000 m<sup>3</sup> sold in the second quarter of 2005 compared to 980,000 m<sup>3</sup> sold in the comparative period of 2004, and a 10% decrease in overall log sales realizations, averaging \$95 per m<sup>3</sup> for the second quarter of 2005, down from \$105 per m<sup>3</sup> for the comparative period in 2004. Log sales to domestic market customers were \$32.3 million, down 42% from the comparative quarter in 2004, reflecting a 33% decrease in domestic log sales volume, to 440,000 m<sup>3</sup> from 660,000 m<sup>3</sup> in 2004, and a 12% decrease in domestic log sales realizations, to \$74 per m<sup>3</sup> from \$84 per m<sup>3</sup> in 2004. These disappointing domestic market results reflect low log-buying activity on the coast of BC during the second quarter of 2005 as many processing facilities reduced consumption during the quarter. Log export sales for the second quarter of 2005 were \$47.8 million, comparable to \$47.9 million for the same period in 2004, reflecting the net effect of a 23% increase in export sales volume to 410,000 m<sup>3</sup>, and a 19% decrease in average realizations to \$118 per m<sup>3</sup> from \$145 per m<sup>3</sup> for the second quarter of 2004. Increased export sales volumes and lower export sales realizations reflect the Company's efforts to offset poor domestic market conditions by increasing volumes into export markets. A Canadian dollar that was approximately 9% stronger in the second quarter of 2005 compared to the same period in 2004 contributed to lower realizations on export sales in the current year.

For the second quarter of 2005, the operating margin from timberland operations averaged 32% of log sales, and is comparable to the margin of 33% of log sales for the same period in 2004. This favourable result comes despite the lower overall sales volumes and lower average sales realizations discussed previously and is primarily due to lower production costs in the quarter, coming in at \$62 per m<sup>3</sup> compared to \$65 per m<sup>3</sup> for the comparative period in 2004.

Log sales for the six months ended June 30, 2005, were \$152.7 million, down 16% from log sales of \$182.5 million for the six months ended June 30, 2004. This decrease reflects the combined effects of an 11% decrease in overall log sales realizations, averaging \$93 per m<sup>3</sup> for the first six months of 2005, down from \$105 per m<sup>3</sup> for the

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comparative period in 2004, and a 6% decrease in the volume of logs sold, with 1,640,000 m<sup>3</sup> sold in the first half of 2005 compared to 1,740,000 m<sup>3</sup> sold in the comparative period of 2004. Log sales to domestic market customers were \$69.4 million, down 31% from the comparative period in 2004, reflecting a 20% decrease in domestic log sales volume, to 920,000 m<sup>3</sup> from 1,160,000 m<sup>3</sup> in 2004, and a 14% decrease in domestic log sales realizations, to \$75 per m<sup>3</sup> from \$87 per m<sup>3</sup> in 2004. As noted previously, these results reflect low log-buying activity in the domestic market due to operational shutdowns taken at coastal processing facilities during the second quarter of 2005. Export sales for the first six months of 2005 were \$83.3 million, comparable to \$81.4 million for the same period in 2004, reflecting the net effect of a 23% increase in export sales volume to 710,000 m<sup>3</sup>, and a 17% decrease in average realizations to \$117 per m<sup>3</sup> from \$140 per m<sup>3</sup> for the first six months of 2004. As noted previously, increased export sales volumes of a weaker species and end use sort mix reflect the Company's efforts to increase volumes into higher-margin export markets in order to offset soft domestic market conditions. As with the second quarter of 2005, a stronger Canadian dollar contributed to lower realizations on export sales in the current year period.

For the six months ended June 30, 2005, the operating margin from timberland operations averaged 31% of log sales, down slightly from 36% of log sales for the same period in 2004. This unfavourable result can be attributed to the lower average sales realizations for the first half of 2005 as discussed previously; however, the effects of the lower sales realizations have been partially offset by lower production costs in the first half of 2005, coming in at \$60 per m<sup>3</sup> compared to \$63 per m<sup>3</sup> for the comparative period in 2004.

Lumber sales for the quarter ended June 30, 2005, of \$22.6 million were 17% lower than sales of \$27.3 million for the quarter ended June 30, 2004. This decrease reflects continued weakness in lumber pricing, contributing to a 21% decrease in average sales realizations for the second quarter of 2005, falling to \$550 per m<sup>3</sup> from \$698 per m<sup>3</sup> for the comparative period in 2004. This was offset in part by a 5% increase in the volume of lumber sold, rising to 41.1 million board feet for the second quarter of 2005 from 39.1 million board feet for the comparative period in 2004. Oversupplied and highly competitive markets in Japan, the continuing softwood lumber dispute with the US, and a stronger Canadian dollar all contributed to the lumbermill operations' failure to make a positive cash or earnings contribution in the quarter. Production volumes at the lumbermill were down 32% over the comparative quarter in 2004, to 29.2 million board feet, reflecting five weeks of market-related downtime taken during the second quarter of 2005.

Lumber sales for the six months ended June 30, 2005, of \$41.2 million were 13% lower than sales of \$47.3 million for the first six months of 2004. This decrease reflects softening in lumber pricing resulting in lower average sales realizations for the first half of 2005, falling 19% to \$541 per m<sup>3</sup> from \$664 per m<sup>3</sup> for the comparative period in 2004. This was offset in part by a 7% increase in the volume of lumber sold, rising to 76.1 million board feet for the first six months of 2005 from 71.2 million board feet for the comparative period in 2004. As with the second quarter of 2005, adverse market, trade and economic factors resulted in the lumbermill operation failing to make a positive cash or earnings contribution on a year to date basis. Production at the lumbermill in the first six months of 2005 was down 9% over the comparative period in 2004, to 76.1 million board feet, primarily reflecting the effects of the five weeks of downtime taken during the second quarter of 2005.

Wood chip sales for both the three and six month periods ended June 30, 2005, of \$2.0 million and \$4.8 million, respectively, were both \$1.2 million lower than sales for the comparative periods in 2004, reflecting comparable chip pricing but a 40% decrease in chip volumes available for sale in the second quarter of 2005 as the result of lower lumber production at the Elk Falls Lumbermill during this time.

Real estate activity for the second quarter of 2005 generated revenues of \$0.6 million compared to revenues of \$0.2 million for the second quarter of 2004. Year to date, 2005 real estate sales generated revenues of \$2.5 million, slightly greater than the \$1.2 million generated in the same period of 2004.

## Financial Position

Current assets increased \$22.8 million to \$110.8 million at June 30, 2005, from December 31, 2004. Accounts receivable increased \$13.5 million to \$28.2 million at June 30, 2005, up from \$14.7 million at December 31, 2004. This increase is considered typical, as year-end accounts receivable are generally low due to reduced sales activity during the year-end holiday season. Inventory increased \$8.4 million to \$70.6 million at June 30, 2005, up from \$62.2 million at the end of 2004. Log inventory value increased \$7.8 million to \$62.0 million at June 30, 2005, reflecting harvest volumes in excess of sales volumes during the first half of the 2005, particularly during the second quarter of the year. Lumber inventory of \$7.1 million at June 30, 2005 was comparable to \$6.8 million at December 31, 2004, but is lower than anticipated at this time of year, reflecting the effects of weak markets and market-related downtime taken at the lumbermill during the second quarter of 2005. Prepaid expenses and other current assets increased \$3.0 million to \$8.7 million at June 30, 2005, up from \$5.7 million at December 31, 2004.

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Property, plant and equipment were \$1,327.9 million as at June 30, 2005, \$6.4 million less than as at December 31, 2004. Factors contributing to the decrease in this balance include additions to property, plant and equipment in the first half of 2005 of \$22.3 million, the sale of property, plant and equipment during the first six months of 2005 for proceeds of \$30.6 million, and a provision for depreciation, depletion and amortization of \$4.3 million for the first half of 2005. Capital additions and disposals were unusually high in the first half of 2005 as these figures included the cost of buying out leased logging equipment early in the first quarter of the year and the subsequent resale of this and other company-owned logging equipment to the Company's long-term contractors under the business transformation initiative.

Other assets were \$12.6 million at June 30, 2005, comparable to the balance of \$12.2 million at December 31, 2004. Other assets are comprised primarily of prepaid pension benefits and deferred debt issue costs.

Current liabilities as at June 30, 2005, were \$99.5 million, compared to \$78.2 million as at December 31, 2004. Accounts payable and accrued liabilities increased \$6.9 million to \$42.4 million at June 30, 2005, reflecting lower than normal levels at the end of 2004 due to production-related curtailments late in the fourth quarter of 2004. The distribution payable at the end of the second quarter of 2005 of \$20.8 million is comparable to the distribution payable of \$20.7 million at December 31, 2004, and reflects a consistent per unit distribution of \$0.269 and an increase in the number of Stapled Units outstanding due to the exercise of options for 357,846 Stapled Units during the first half of 2005.

Throughout the first half of 2005, the Company undertook a review of available options for refinancing, renewing or extending its available credit facilities. On February 28, 2005, the Company completed and received an extension to June 1, 2005 of short-term financing from a Canadian bank that was previously due on March 1, 2005. On June 1, 2005, the Company completed and received a further extension on this short-term financing to September 1, 2005. This financing consists of an unsecured demand bank guarantee facility in the amount of \$16.0 million and an unsecured committed revolving facility in the amount of \$40.0 million. Under this 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 18, 2005, the Company completed and received an extension to July 30, 2005 of short-term financing from a Canadian bank that was previously due on May 25, 2005. On June 28, 2005, the Company completed and received a further extension on this short-term financing to July 31, 2005. This financing consists of an unsecured committed revolving facility in the amount of \$40.0 million. Under this 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, 2005, the Company had combined borrowings of \$36.3 million on its two \$40.0 million unsecured revolving facilities, an increase of \$14.3 million from borrowings of \$22.0 million at December 31, 2004. In addition, similar to December 31, 2004, the Company had commitments of \$15.9 million at June 30, 2005, relating to outstanding letters of credit issued under its available credit facilities.

Subsequent to June 30, 2005, the Company finalized arrangements for new credit facilities. On July 7, 2005, the Company completed and received long-term financing in the amount of \$65.0 million pursuant to an unsecured revolving facility underwritten by a Canadian Chartered bank, due on July 7, 2010. Under this facility funds are available to the Company in both Canadian and US dollars by way of adjusted prime rate-based loans, bankers' acceptances, LIBOR loans and letters of credit or guarantee. On completion of this financing, the Company's short-term unsecured committed revolving facility for \$40.0 million due on July 31, 2005, was cancelled. In addition, on July 28, 2005, the Company completed and received additional long-term financing in the amount of \$100.0 million pursuant to an unsecured revolving facility underwritten by a syndicate of Canadian Chartered banks, due on July 28, 2010. Under this facility funds are available to the Company in both Canadian and US dollars by way of adjusted prime rate-based loans, US base rate-based loans, bankers' acceptances, LIBOR loans and letters of credit or guarantee. On completion of this financing, the Company's unsecured revolving credit facility for \$125.0 million due on December 31, 2006, was cancelled.

As at June 30, 2005, long-term credit facilities available to the Company consisted of an unsecured revolving credit facility for \$125.0 million due on December 31, 2006. There were no borrowings on this facility at June 30, 2005 or at December 31, 2004. Long-term financial liabilities as at June 30, 2005, also included \$195.0 million aggregate principal amount of 7.0% unsecured senior debentures due October 1, 2007.

Other long-term liabilities at June 30, 2005, included a silviculture liability of \$2.7 million, a \$27.8 million liability relating to non-pension post retirement benefits and a future income tax liability of \$223.9 million. These balances are all comparable to balances as at December 31, 2004.

As noted previously, effective January 1, 2005, the Company was required to adopt an amendment to CICA Handbook Section 3860 – *Financial Instruments: Disclosure and Presentation*. As a result of this amendment to

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Section 3860, the Series A Subordinate Note component of the Company's Stapled Unit can no longer be presented as a component of equity and is now presented as a liability on the Company's consolidated balance sheets. As at June 30, 2005, this reclassification from equity to liabilities was \$693.7 million. Retroactive application of this accounting change has resulted in a \$690.5 million reclassification from equity to liabilities as at December 31, 2004. Additional information on this issue is provided in this management's discussion and analysis under the heading "Accounting Policy Change".

During the quarter ended June 30, 2005, 6,000 Stapled Unit options were granted and options to purchase 152,517 Stapled Units were exercised for proceeds of \$1.7 million. During the six months ended June 30, 2005, 348,998 Stapled Unit options were granted and options to purchase 357,846 Stapled Units were exercised for proceeds of \$4.2 million. As at August 3, 2005, the Company had 1,096,911 granted and outstanding Stapled Unit option awards and 77,264,863 issued and outstanding Stapled Units.

### Cash Flow and Liquidity

Cash used in operations before changes in non-cash working capital for the three months ended June 30, 2005, was \$4.5 million or \$0.06 per weighted average Stapled Unit compared to cash provided by operations before changes in non-cash working capital for the corresponding quarter in 2004 of \$5.7 million or \$0.07 per weighted average Stapled Unit. Cash used in operations before changes in non-cash working capital for the six months ended June 30, 2005, was \$10.0 million or \$0.13 per weighted average Stapled Unit compared to cash provided by operations before changes in non-cash working capital for the corresponding period in 2004 of \$10.4 million or \$0.14 per weighted average Stapled Unit. These results reflect the change in accounting policy for the Series A Subordinate Notes as described under "Accounting Policy Change" whereby interest thereon of \$20.8 million and \$41.6 million for the three and six month periods ended June 30, 2005, respectively, (2004 – \$20.6 million and \$41.2 million, respectively,) are now presented as a use of cash flows under operating activities rather than under financing activities as a distribution. Cash provided by operations before changes in non-cash working capital and before distributions to unitholders was \$16.3 million, or \$0.21 per Stapled Unit, and \$26.3 million, or \$0.34 per Stapled Unit, for the second quarter of 2005 and 2004, respectively. Cash provided by operations before changes in non-cash working capital and before distributions to unitholders for the six months ended June 30, 2005 and June 30, 2004, was \$31.6 million, or \$0.41 per Stapled Unit, and \$51.6 million, or \$0.68 per Stapled Unit, respectively. During the second quarter of 2005, non-cash working capital increased by \$19.2 million compared to a \$1.7 million decrease reported for the same period in 2004. The current year increase reflects the combined effect of an increase in inventory and prepaid expenses and other working capital and a decrease in accounts payable and accrued liabilities, compared to balances at March 31, 2005. For the six months ended June 30, 2005, non-cash working capital increased \$17.6 million compared to a \$1.3 million decrease for the same period in 2004. The current year increase reflects the net effect of an increase in accounts receivable, inventory and prepaid expenses and other working capital, offset in part by an increase in accounts payable and accrued liabilities, compared to balances at December 31, 2004.

Net cash provided by financing activities during the second quarter of 2005 was \$24.6 million compared to \$22.9 million used in financing activities in the comparative period of 2004. During the three months ended June 30, 2005, the Company issued 152,517 Stapled Units for net proceeds of \$1.7 million on the exercise of Stapled Unit options, compared to the issuance of 79,250 Stapled Units for net proceeds of \$0.9 million on the exercise of Stapled Unit options in the comparative period in 2004. In addition, during the second quarter of 2005, \$22.7 million was borrowed on revolving credit facilities compared to \$23.8 million applied to reduce amounts borrowed on revolving credit facilities during the comparative period in 2004. Net cash provided by financing activities during the six months ended June 30, 2005 was \$18.7 million compared to \$28.0 million used in financing activities in the comparative period of 2004. During the six months ended June 30, 2005, the Company issued 357,846 Stapled Units for net proceeds of \$4.2 million on the exercise of Stapled Unit options, compared to the issuance of 229,450 Stapled Units for net proceeds of \$2.8 million on the exercise of Stapled Unit options in the comparative period in 2004. In addition, during the first half of 2005, \$14.3 million was borrowed on revolving credit facilities compared to \$30.8 million applied to reduce amounts borrowed on revolving credit facilities during the same period in 2004.

Net cash used in investing activities during the second quarter of 2005 was \$0.9 million compared to net cash provided by investing activities of \$15.5 million for the same period of 2004. The variance from 2004 can be attributed to the receipt of significant proceeds from the sale of property, plant and equipment in the second quarter of 2004, including \$16.2 million cash proceeds on the sale of TFL 46. Net cash provided by investing activities during the first six months of 2005 was \$7.3 million compared to net cash provided by investing activities of \$16.3 million for the same period of 2004. This variance can be attributed to the net effect of the sale of TFL 46 in 2004 and to transactions in the first quarter of 2005 related to the business transformation initiative, including capital additions \$17.0 million for the buy-out of leases on company-operated logging equipment which was



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subsequently sold to the Company's new long-term contractors, with the Company receiving approximately \$21.4 million in proceeds from the sale of both leased and company-owned logging equipment. In addition, proceeds from the sale of property, plant and equipment for the first half of 2005 included \$3.7 million in proceeds received in connection with the timber reallocation agreement with the Province that was finalized in the first quarter of the year.

As at June 30, 2005, TimberWest's total debt<sup>2</sup> outstanding was \$231.3 million compared to total debt outstanding of \$217.0 million as at December 31, 2004. The Company's consolidated debt-to-total capitalization ratio<sup>2</sup> as at June 30, 2005 was 20:80, comparable to the ratio of 19:81 as at December 31, 2004. Total debt facilities available to the Company as at June 30, 2005 were \$416.0 million, comprised of \$16.0 million available under the demand bank guarantee facility due September 1, 2005, \$40.0 million available under the revolving facility due July 30, 2005, \$40.0 million available under the revolving facility due September 1, 2005, \$125.0 million available under the revolving credit facility maturing on December 31, 2006 and \$195.0 million of 7.0% debentures maturing on October 1, 2007. Total debt facilities available to the Company as at August 3, 2005 were \$416.0 million. This will reduce to \$376.0 million on September 1, 2005.

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<sup>2</sup> Total debt and the debt-to-total capitalization ratio are measures that do not have a standardized meaning prescribed by GAAP and may not be comparable to similar measures presented by other companies. As the Company's Series A Subordinate Notes (June 30, 2005 – \$693.7 million; December 31, 2004 – \$690.5 million) trade only as part of the Company's equity instrument, the Stapled Unit, they are not included in the Company's definition of debt. Management believes that the presentation of these measures will enhance an investor's understanding of the Company's financial resources and capital structure.

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## Quarterly Financial Information

The following table presents selected unaudited quarterly financial information for each of the Company's last eight quarters. This data has been derived from unaudited interim consolidated financial statements that have been prepared on the same basis as the 2004 annual audited consolidated financial statements, except for the change in accounting policy for the Series A Subordinate Notes and interest thereon as described under "Accounting Policy Change". In the Company's opinion, the amounts include all normal recurring adjustments necessary for the fair presentation of such information. These financial results are not necessarily indicative of results for any future period and should not be relied upon to predict future performance.

<i>(in millions of dollars, except per common share and per Stapled Unit amounts)</i>	2003		2004				2005	
	Q3	Q4	Q1	Q2	Q3	Q4	Q1	Q2
Sales	\$ 105.0	\$ 96.3	\$ 105.4	\$ 136.8	\$ 119.9	\$ 114.9	\$ 98.6	\$ 107.6
Operating earnings	\$ 12.0	\$ 5.8	\$ 28.0	\$ 28.4	\$ 23.0	\$ 15.0	\$ 17.3	\$ 17.8
Net earnings (loss) before extraordinary item	\$ (10.9)	\$ (19.7)	\$ 3.8	\$ 8.5	\$ 3.6	\$ (1.2)	\$ (2.4)	\$ (6.7)
Extraordinary item, net of applicable income taxes	\$ —	\$ —	\$ —	\$ —	\$ 9.0	\$ —	\$ —	\$ —
Net earnings (loss)	\$ (10.9)	\$ (19.7)	\$ 3.8	\$ 8.5	\$ 12.6	\$ (1.2)	\$ (2.4)	\$ (6.7)
Earnings available for distribution	\$ 9.6	\$ 0.8	\$ 24.4	\$ 29.1	\$ 33.2	\$ 19.5	\$ 18.4	\$ 14.1
Earnings available for distribution before provision for future income taxes	\$ 8.2	\$ 1.3	\$ 23.6	\$ 29.0	\$ 33.0	\$ 13.2	\$ 19.6	\$ 13.0
Distributable cash before extraordinary item	\$ 12.0	\$ 9.0	\$ 27.7	\$ 43.5	\$ 21.9	\$ 18.1	\$ 23.9	\$ 15.4
Distributable cash from extraordinary item	\$ —	\$ —	\$ —	\$ —	\$ 14.0	\$ —	\$ —	\$ —
Distributable cash	\$ 12.0	\$ 9.0	\$ 27.7	\$ 43.5	\$ 35.9	\$ 18.1	\$ 23.9	\$ 15.4
Distributions paid	\$ 20.6	\$ 20.5	\$ 20.5	\$ 20.6	\$ 20.6	\$ 20.6	\$ 20.7	\$ 20.8
<i>\$ per common share</i> <sup>3</sup>								
Basic and diluted net earnings (loss) before extraordinary item	\$ (0.14)	\$ (0.26)	\$ 0.05	\$ 0.11	\$ 0.05	\$ (0.02)	\$ (0.03)	\$ (0.09)
Extraordinary item	\$ —	\$ —	\$ —	\$ —	\$ 0.11	\$ —	\$ —	\$ —
Basic and diluted net earnings (loss) after extraordinary item	\$ (0.14)	\$ (0.26)	\$ 0.05	\$ 0.11	\$ 0.16	\$ (0.02)	\$ (0.03)	\$ (0.09)
<i>\$ per Stapled Unit</i> <sup>3</sup>								
Basic and diluted earnings available for distribution	\$ 0.13	\$ 0.01	\$ 0.32	\$ 0.38	\$ 0.43	\$ 0.25	\$ 0.24	\$ 0.18
Basic and diluted earnings available for distribution before provision for future income taxes	\$ 0.11	\$ 0.02	\$ 0.31	\$ 0.38	\$ 0.43	\$ 0.17	\$ 0.25	\$ 0.17
Basic and diluted distributable cash before extraordinary item	\$ 0.15	\$ 0.12	\$ 0.36	\$ 0.57	\$ 0.29	\$ 0.24	\$ 0.31	\$ 0.20
Basic and diluted distributable cash from extraordinary item	\$ —	\$ —	\$ —	\$ —	\$ 0.18	\$ —	\$ —	\$ —
Basic and diluted distributable cash	\$ 0.15	\$ 0.12	\$ 0.36	\$ 0.57	\$ 0.47	\$ 0.24	\$ 0.31	\$ 0.20
Distributions paid	\$ 0.27	\$ 0.27	\$ 0.27	\$ 0.27	\$ 0.27	\$ 0.27	\$ 0.27	\$ 0.27

<sup>3</sup> Per common share and per Stapled Unit amounts presented for each quarter have been determined based on the weighted average number of common shares or weighted average number of Stapled Units outstanding during the quarter. Per common share and per Stapled Unit amounts by quarter do not necessarily add to the total of the year due to changes in the weighted average number of common shares and Stapled Units outstanding during the year.



# TIMBERWEST FOREST CORP.

## Accounting Policy Change

### *Liabilities and equity:*

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

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

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

Given that the number of shares required to retire the Subordinate Note component is not fixed, the Series A Subordinate Note component of the Stapled Unit is no longer classified as equity and is now presented as a liability on the Company's consolidated balance sheets. As at June 30, 2005, the reclassification from equity to liabilities was \$693.7 million (December 31, 2004 – \$690.5 million).

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

For the three months ended June 30, 2005, interest payments on the Series A Subordinate Notes of \$20.8 million (2004 – \$20.6 million) have been reported as an interest expense in the consolidated statements of operations and the income tax benefit thereon of \$7.4 million (2004 – \$7.4 million) has been reported as a reduction in the income tax expense in the consolidated statements of operations, whereas both had previously been reported in retained earnings. For the six months ended June 30, 2005, interest payments on the Series A Subordinate Notes of \$41.6 million (2004 – \$41.2 million) have been reported as an interest expense in the consolidated statements of operations and the income tax benefit thereon of \$14.8 million (2004 – \$14.7 million) has been reported as a reduction in the income tax expense in the consolidated statements of operations, whereas both had previously been reported in retained earnings.

## Outlook

As we look to the balance of the year, we continue to be concerned about all of our markets. While we will see record log exports this year, it will be with a weaker overall sales mix than last year. Economic reports indicate that the US housing market will begin to soften in the latter part of 2005 and as a result this market will be oversupplied while production adjusts to falling demand. This will back up into log prices when it does happen. We expect Japan and the rest of Asia to have stable pricing although with a weaker mix of products for the balance of the year.

We remain optimistic about the future of the forest industry on the coast of BC. In our domestic market, coastal restructuring is well underway, however, it will take some time for the sawmilling industry to close inefficient mills, invest new capital and produce the higher-value products customers want. As a consequence, we expect the domestic log market to remain weak through the balance of the year.

While real estate sales on a year to date basis have been low, we expect these to increase for the balance of the year and expect to sell real estate at a higher level than we have for a number of years. We are experiencing very



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strong real estate markets on some parts of Vancouver Island and we intend to participate in these markets in the current year.

We expect the Elk Falls sawmill performance to remain weak, likely with cash losses for the balance of the year.

On the log production side of the business, we expect costs to be in line with where they are on a year to date basis and end the year a bit lower than in 2004. With respect to volumes, as discussed earlier in this report, we are expecting to harvest approximately 3.0 million m<sup>3</sup> from our private timberlands in 2005 bringing our total harvest for the Company to 3.7 million m<sup>3</sup> for the year.

All in all, we still expect to generate sufficient distributable cash to meet our distribution requirements for the year.

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



# TIMBERWEST FOREST CORP.

## Notice

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

# TIMBERWEST FOREST CORP.

## Consolidated Statements of Operations

(in millions of dollars)  
Unaudited

	Three months ended		Six months ended	
	June 30, 2005	June 30, 2004 (restated - note 2)	June 30, 2005	June 30, 2004 (restated - note 2)
Sales	\$ 107.6	\$ 136.8	\$ 206.2	\$ 242.2
Operating costs and expenses:				
Cost of products sold	84.3	103.0	160.2	174.0
Depreciation, depletion and amortization	2.4	2.5	4.3	5.4
Selling, administrative and other	3.1	2.9	6.6	6.4
	89.8	108.4	171.1	185.8
Operating earnings	17.8	28.4	35.1	56.4
Interest expense:				
Series A Subordinate Notes owned by unitholders (note 2)	20.8	20.6	41.6	41.2
Long-term debt	3.4	3.6	6.5	7.0
Short-term debt	0.5	0.4	1.0	1.1
	24.7	24.6	49.1	49.3
Amortization of deferred financing costs	0.2	0.4	0.4	0.7
Other (income) expense (note 3)	0.5	(5.0)	(5.8)	(5.2)
	25.4	20.0	43.7	44.8
Earnings (loss) before income taxes	(7.6)	8.4	(8.6)	11.6
Income tax expense (recovery) (note 4)	(0.9)	(0.1)	0.5	(0.7)
Net earnings (loss)	\$ (6.7)	\$ 8.5	\$ (9.1)	\$ 12.3
Basic and diluted earnings (loss) per common share (note 5)	\$ (0.09)	\$ 0.11	\$ (0.12)	\$ 0.16

## Consolidated Statements of Retained Earnings

(in millions of dollars)  
Unaudited

	Three months ended		Six months ended	
	June 30, 2005	June 30, 2004 (restated - note 2)	June 30, 2005	June 30, 2004 (restated - note 2)
Retained earnings, beginning of period	\$ 26.0	\$ 8.5	\$ 28.4	\$ 4.7
Net earnings (loss) for the period	(6.7)	8.5	(9.1)	12.3
Retained earnings, end of period	\$ 19.3	\$ 17.0	\$ 19.3	\$ 17.0

See accompanying notes to unaudited interim consolidated financial statements.

# TIMBERWEST FOREST CORP.

## Consolidated Balance Sheets

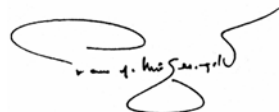
(in millions of dollars)

	As at June 30, 2005 <i>Unaudited</i>	As at December 31, 2004 (restated – note 2)
<b>Assets</b>		
Current assets:		
Cash	\$ —	\$ 1.6
Accounts receivable	28.2	14.7
Inventories	70.6	62.2
Prepaid expenses and other current assets	8.7	5.7
Future income taxes	3.3	3.8
	110.8	88.0
Property, plant and equipment, net (note 6)	1,327.9	1,334.3
Other assets	12.6	12.2
	\$ 1,451.3	\$ 1,434.5
<b>Liabilities and Unitholders' Equity</b>		
Current liabilities:		
Revolving credit facilities (note 7)	\$ 36.3	\$ 22.0
Accounts payable and accrued liabilities	42.4	35.5
Distribution payable	20.8	20.7
	99.5	78.2
Debentures	195.0	195.0
Long-term silviculture liability	2.7	2.8
Non-pension post-retirement benefits	27.8	27.1
Future income taxes	223.9	224.3
	548.9	527.4
Series A Subordinate Notes owned by unitholders (notes 2 and 8)	693.7	690.5
	1,242.6	1,217.9
Unitholders' equity:		
Share capital, consisting of common and preferred shares (note 8)	188.8	187.8
Contributed surplus	0.6	0.4
Retained earnings	19.3	28.4
	208.7	216.6
	\$ 1,451.3	\$ 1,434.5

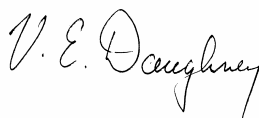
Subsequent events (note 12)

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, 2005	June 30, 2004 (restated - note 2)	June 30, 2005	June 30, 2004 (restated - note 2)
<b>Cash provided by (used in):</b>				
<b>Operating activities:</b>				
Net earnings (loss)	\$ (6.7)	\$ 8.5	\$ (9.1)	\$ 12.3
Items not involving cash:				
Depreciation, depletion and amortization	2.6	2.9	4.7	6.1
Loss (gain) on sale of property, plant and equipment	0.5	(4.9)	(6.3)	(5.4)
Future income tax expense (recovery)	(1.1)	(0.1)	0.1	(0.9)
Other non-cash items	0.2	(0.7)	0.6	(1.7)
	(4.5)	5.7	(10.0)	10.4
Changes in non-cash working capital:				
Accounts receivable	0.1	0.8	(13.5)	(10.4)
Inventories	(15.3)	(1.1)	(8.4)	(15.0)
Prepaid expenses and other	(2.8)	1.3	(2.7)	2.9
Accounts payable and accrued liabilities	(1.2)	0.7	6.9	23.7
Distribution payable	—	—	0.1	0.1
	(23.7)	7.4	(27.6)	11.7
<b>Financing activities:</b>				
Issuance of Stapled Units on exercise of options:				
Series A Subordinate Notes	1.4	0.8	3.2	2.1
Share capital	0.3	0.1	1.0	0.7
	1.7	0.9	4.2	2.8
Forfeited distribution equivalent awards	0.2	—	0.2	—
Revolving credit facilities	22.7	(23.8)	14.3	(30.8)
	24.6	(22.9)	18.7	(28.0)
<b>Investing activities:</b>				
Proceeds from sale of property, plant and equipment	3.8	17.2	30.6	18.6
Additions to property, plant and equipment	(4.5)	(1.5)	(22.3)	(2.0)
Other assets	(0.2)	(0.2)	(1.0)	(0.3)
	(0.9)	15.5	7.3	16.3
<b>Increase (decrease) in cash</b>	—	—	(1.6)	—
<b>Cash, beginning of period</b>	—	—	1.6	—
<b>Cash, end of period</b>	\$ —	\$ —	\$ —	\$ —
<b>Supplemental information:</b>				
Interest on Series A Subordinate Notes paid to unitholders	\$ 20.8	\$ 20.6	\$ 41.5	\$ 41.1
Other interest paid	\$ 7.4	\$ 7.4	\$ 7.8	\$ 8.2
Income taxes paid	\$ 0.2	\$ 0.2	\$ 0.3	\$ 0.4

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, 2005 and 2004

*Financial figures presented in the tables that follow are in millions of dollars, except per common share amounts.*

### 1. Significant Accounting Policies

The accompanying unaudited interim consolidated financial statements include the accounts of TimberWest Forest Corp. and its subsidiaries ("the Company"), have been prepared in accordance with Canadian generally accepted accounting principles and are expressed in Canadian dollars. Not all disclosures required by Canadian generally accepted accounting principles for annual financial statements are presented and, accordingly, these interim consolidated financial statements should be read in conjunction with the Company's most recent annual consolidated financial statements. These interim consolidated financial statements follow the same accounting policies and methods of application used in the Company's audited annual consolidated financial statements of December 31, 2004, except for the accounting policy change as described in note 2.

### 2. Change in Accounting Policy

Liabilities and equity:

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

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

Given that the number of shares required to retire the Subordinate Note component is not fixed, the Series A Subordinate Note component of the Stapled Unit is no longer classified as equity and is now presented as a liability on the Company's consolidated balance sheets. As at June 30, 2005, the reclassification from equity to liabilities was \$693.7 million (December 31, 2004 – \$690.5 million).

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

For the three months ended June 30, 2005, interest payments on the Series A Subordinate Notes of \$20.8 million (2004 – \$20.6 million) have been reported as an interest expense in the consolidated statements of operations and the income tax benefit thereon of \$7.4 million (2004 – \$7.4 million) has been reported as a reduction in the income tax expense in the consolidated statements of operations, whereas both had previously been reported in retained earnings. For the six months ended June 30, 2005, interest payments on the Series A Subordinate Notes of \$41.6 million (2004 – \$41.2 million) have been reported as an interest expense in the consolidated statements of operations and the income tax benefit thereon of \$14.8 million (2004 – \$14.7 million) has been reported as a reduction in the income tax expense in the consolidated statements of operations, whereas both had previously been reported in retained earnings.

# TIMBERWEST FOREST CORP.

## Notes to Unaudited Interim Consolidated Financial Statements

For the three and six months ended June 30, 2005 and 2004

### 3. Business Transformation

The Company completed the final phase of its business transformation initiative early in the first quarter of 2005, with the buy-out of leases on Company operated logging equipment for \$17.0 million, and the subsequent sale of this leased equipment and other company-owned logging equipment to long-term contractors for proceeds of approximately \$21.4 million. Other income for the six months ended June 30, 2005 includes a gain on disposal of the logging equipment of approximately \$4.4 million.

During the second quarter of 2005, the Company realigned the roles and responsibilities of personnel under the new business model and eliminated additional salaried positions in the timberland and corporate overhead components of its business. Operating earnings for the three and six months ended June 30, 2005, reflect an expense of \$2.0 million in cost of sales for costs relating to this restructuring.

### 4. Income Taxes

	Three months ended		Six months ended	
	June 30, 2005	June 30, 2004 (restated - note 2)	June 30, 2005	June 30, 2004 (restated - note 2)
Current income tax expense				
Large corporation tax	\$ 0.2	\$ —	\$ 0.4	\$ 0.2
Future income tax expense (recovery)	(1.1)	(0.1)	0.1	(0.9)
	\$ (0.9)	\$ (0.1)	\$ 0.5	\$ (0.7)

### 5. Earnings per Share

	Three months ended		Six months ended	
	June 30, 2005	June 30, 2004 (restated - note 2)	June 30, 2005	June 30, 2004 (restated - note 2)
Net earnings (loss)	\$ (6.7)	\$ 8.5	\$ (9.1)	\$ 12.3
Basic weighted average number of common shares	77,168,284	76,438,443	77,079,076	76,373,264
Incremental common shares from potential exercise of options	127,272	146,487	147,127	116,132
Diluted weighted average number of common shares	77,295,556	76,584,930	77,226,203	76,489,396
Basic and diluted net earnings (loss) per common share	\$ (0.09)	\$ 0.11	\$ (0.12)	\$ 0.16

### 6. Property, Plant and Equipment

Property, plant and equipment at June 30, 2005 includes private timberlands with a carrying value of \$1,214.0 million. This amount includes a valuation increase adjustment of \$389.8 million recorded in the year ended December 31, 2000 resulting from the adoption of Section 3465 – *Income Taxes* of the CICA Handbook, which was mandatory for fiscal years ending on or after January 1, 2000.

### 7. Revolving Credit Facilities

On February 28, 2005, the Company completed and received an extension to June 1, 2005 of short-term financing from a Canadian bank that was previously due on March 1, 2005. On June 1, 2005, the Company completed and received a further extension on this short-term financing to September 1, 2005. This financing consists of an unsecured demand bank guarantee facility in the amount of \$16.0 million and an unsecured committed revolving facility in the amount of \$40.0 million. Under this 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.

# TIMBERWEST FOREST CORP.

## Notes to Unaudited Interim Consolidated Financial Statements

For the three and six months ended June 30, 2005 and 2004

### 7. Revolving Credit Facilities (continued)

On May 18, 2005, the Company completed and received an extension to July 30, 2005 of short-term financing from a Canadian bank that was previously due on May 25, 2005. On June 28, 2005, the Company completed and received a further extension on this short-term financing to July 31, 2005 (see note 12). This financing consists of an unsecured committed revolving facility in the amount of \$40.0 million. Under this 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, 2005, the Company had combined borrowings of \$36.3 million on its two \$40.0 million unsecured revolving facilities, and commitments of \$15.9 million relating to outstanding letters of credit issued under its available credit facilities. As at June 30, 2005, there were no borrowings on the Company's \$125.0 million unsecured revolving credit facility (see note 12).

### 8. Stapled Units

	Stapled Unit Components			Total
	Number	Series A Subordinate Notes	Share Capital (consisting of common and preferred shares)	
Six months ended June 30, 2004:				
Balance, December 31, 2003	76,246,122	\$ 684.6	\$ 186.0	\$ 870.6
Issuance of Stapled Units on exercise of options	229,450	2.1	0.7	2.8
<b>Balance, June 30, 2004</b>	<b>76,475,572</b>	<b>\$ 686.7</b>	<b>\$ 186.7</b>	<b>\$ 873.4</b>
Six months ended June 30, 2005:				
Balance, December 31, 2004	76,907,017	\$ 690.5	\$ 187.8	\$ 878.3
Issuance of Stapled Units on exercise of options	<b>357,846</b>	<b>3.2</b>	<b>1.0</b>	<b>4.2</b>
<b>Balance, June 30, 2005</b>	<b>77,264,863</b>	<b>\$ 693.7</b>	<b>\$ 188.8</b>	<b>\$ 882.5</b>

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

Each Series A Subordinate Note has been issued with a face amount of \$8.978806569, entitling the holder to an interest payment per unit of \$1.077456788 per annum (12%). The Series A Subordinate Notes are unsecured and subordinate to all credit facilities and debentures. The principal amount of the Series A Subordinate Notes plus accrued and unpaid interest thereon are due on August 31, 2038, unless such date is extended by the Company at the time of the issuance of additional Subordinate Notes to a date not later than the earlier of: (i) the date of maturity of such additional Subordinate Notes; and (ii) August 31, 2048, and will be payable by cash or, at the option of the Company, by delivery of common shares to the Subordinate Note Trustee for the benefit of the holders of the Subordinate Notes.

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

# TIMBERWEST FOREST CORP.

## Notes to Unaudited Interim Consolidated Financial Statements

For the three and six months ended June 30, 2005 and 2004

### 9. Employee Benefits

The Company, through its subsidiaries, maintains pension plans that include defined benefit and defined contribution segments available to all salaried employees and to hourly employees not covered by union pension plans. During the three months ended June 30, 2005, the Company recorded an expense of \$0.7 million for pension benefit costs (2004 – \$0.8 million) and made cash payments of \$1.0 million to fund current and future service costs (2004 – \$0.5 million). For the six months ended June 30, 2005, the Company recorded an expense of \$1.1 million for pension benefit costs (2004 – \$1.5 million) and made cash payments of \$1.8 million to fund current and future service costs (2004 – \$0.8 million).

The Company also provides non-pension benefits consisting of group life insurance and medical benefits to eligible retired employees, which the Company funds on an as-incurred basis. During the three months ended June 30, 2005, the Company recorded an expense of \$0.9 million for non-pension benefit costs (2004 – \$0.9 million) and made cash payments of \$0.6 million to fund current and future benefit costs (2004 – \$0.5 million). For the six months ended June 30, 2005, the Company recorded an expense of \$1.8 million for non-pension benefit costs (2004 – \$1.8 million) and made cash payments of \$1.1 million to fund current and future benefit costs (2004 – \$0.9 million).

### 10. Stock-based Compensation Plans

Under the Company's Stapled Unit Option Plan, the Company may grant options for the purchase of Stapled Units to directors, officers or employees who are in active service or employment of the Company or of any of its subsidiaries. During the three months ended June 30, 2005, 6,000 Stapled Unit options were granted at an exercise price of \$14.98 (2004 – nil). For the six months ended June 30, 2005, 348,998 Stapled Unit options were granted at an average exercise price of \$15.79 (2004 – 313,220 Stapled Unit options were granted at an average exercise price of \$12.21).

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

	2005	2004
Risk-free interest rate	3.5%	3.5%
Expected life (years)	5.0	5.0
Expected volatility	20.0%	20.6%
Dividend yield	6.8%	8.6%
Number of options granted	348,998	313,220
Fair value of each option granted	\$1.30	\$0.86

The compensation cost for the 6,000 Stapled Unit options granted between April 1, 2005 and June 30, 2005 is \$5,600 (2004 – nil). The compensation cost for the 348,998 Stapled Unit options granted between January 1, 2005 and June 30, 2005 is \$454,900 (2004 – 313,220 Stapled Unit options were granted with a compensation cost of \$269,000). The compensation cost of Stapled Unit option awards is amortized against earnings over the three-year vesting period of the underlying options. An expense of \$104,000 and \$169,000 has been recognized in net earnings for the three and six month periods ended June 30, 2005, respectively, (2004 – \$46,000 and \$79,000, respectively,) for option awards made during fiscal 2005, 2004 and 2003, with a corresponding credit to contributed surplus.

Had the Company used the fair value method to account for Stapled Unit options granted during 2002, there would have been no adjustment to net earnings and earnings per common share reported for the three and six month periods ended June 30, 2005 and 2004, as the stock-based compensation cost related to these options was nominal.

# TIMBERWEST FOREST CORP.

## Notes to Unaudited Interim Consolidated Financial Statements

For the three and six months ended June 30, 2005 and 2004

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

Under the Company's Distribution Equivalent Plan, the Company awards Stapled Unit option holders an amount equal to actual distributions paid on the Company's Stapled Units. Awards granted under the Distribution Equivalent Plan vest under the same terms that apply to the corresponding options and can only be exercised at the time of exercise of the corresponding options. The Company applies the principles of the fair value-based method of accounting for stock-based compensation to awards granted under this plan. Awards are accrued on a basis equal to actual distributions paid on the Company's issued and outstanding Stapled Units and are charged to earnings as the underlying Stapled Unit options vest. During the three months ended June 30, 2005, \$0.3 million has been accrued for awards granted under this plan (2004 – \$0.4 million) and \$0.2 million has been amortized against earnings for the quarter (2004 – \$0.3 million). For the six months ended June 30, 2005, \$0.6 million has been accrued for awards granted under this plan (2004 – \$0.7 million) and \$0.5 million has been amortized against earnings for this period (2004 – \$0.6 million).

During the three months ended June 30, 2005, a total of 152,517 Stapled Unit options with an average exercise price of \$11.20 were exercised and 28,612 Stapled Unit options with an average exercise price of \$14.42 were cancelled (2004 – 79,250 Stapled Unit options with an average exercise price of \$11.18 were exercised and no options were cancelled). For the six months ended June 30, 2005, a total of 357,846 Stapled Unit options with an average exercise price of \$11.81 were exercised and 51,819 Stapled Unit options with an average exercise price of \$14.24 were cancelled (2004 – 229,450 Stapled Unit options with an average exercise price of \$12.10 were exercised and no options were cancelled).

### 11. Comparative Figures

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

### 12. Subsequent Events

Subsequent to June 30, 2005, the Company finalized arrangements for new credit facilities.

On July 7, 2005, the Company completed and received long-term financing in the amount of \$65.0 million pursuant to an unsecured revolving facility underwritten by a Canadian Chartered bank, due on July 7, 2010. Under this facility funds are available to the Company in both Canadian and US dollars by way of adjusted prime rate-based loans, bankers' acceptances, LIBOR loans and letters of credit or guarantee. On completion of this financing, the Company's short-term unsecured committed revolving facility for \$40.0 million due on July 31, 2005, was cancelled.

In addition, on July 28, 2005, the Company completed and received additional long-term financing in the amount of \$100.0 million pursuant to an unsecured revolving facility underwritten by a syndicate of Canadian Chartered banks, due on July 28, 2010. Under this facility funds are available to the Company in both Canadian and US dollars by way of adjusted prime rate-based loans, US base rate-based loans, bankers' acceptances, LIBOR loans and letters of credit or guarantee. On completion of this financing, the Company's unsecured revolving credit facility for \$125.0 million due on December 31, 2006, was cancelled.

# TIMBERWEST FOREST CORP.

## Supplemental Information

Unaudited

	Three months ended		Six months ended	
	June 30, 2005	June 30, 2004	June 30, 2005	June 30, 2004
<b>Sales by Product</b> (in millions of dollars)				
Log sales				
Domestic	\$ 32.3	\$ 55.3	\$ 69.4	\$ 101.1
Export – Asia	32.5	34.7	56.5	58.0
Export – US	15.3	13.2	26.8	23.4
Total log sales	80.1	103.2	152.7	182.5
Lumber	22.6	27.3	41.2	47.3
Wood chips and other	4.3	6.1	9.8	11.2
Real estate	0.6	0.2	2.5	1.2
	\$ 107.6	\$ 136.8	\$ 206.2	\$ 242.2
<b>Sales Volume</b>				
Logs (thousand m <sup>3</sup> )				
Domestic	436.4	655.4	923.4	1,156.5
Export – Asia	239.8	206.3	414.9	359.5
Export – US	166.4	123.0	298.0	221.7
	842.6	984.7	1,636.3	1,737.7
Lumber (million fbm)	41.1	39.1	76.1	71.2
<b>Log Sales Mix (thousand m<sup>3</sup>)</b>				
Fir	535.9	594.8	983.6	1,076.9
Hembal	166.7	216.3	366.3	338.3
Cedar	80.2	95.3	172.2	179.7
Other	59.8	78.3	114.2	142.8
	842.6	984.7	1,636.3	1,737.7
<b>Production Volume</b>				
Logs (thousand m <sup>3</sup> )				
Public tenures	253.5	227.3	308.8	541.6
Private timberlands	789.8	789.3	1,481.1	1,394.5
	1,043.3	1,016.6	1,789.9	1,936.1
Lumber (million fbm)	29.2	43.0	76.1	83.3
<b>Earnings Before Interest, Taxes, Depreciation and Amortization (EBITDA)*</b> (in millions of dollars)				
Net earnings (loss)	\$ (6.7)	\$ 8.5	\$ (9.1)	\$ 12.3
Add (deduct):				
Interest on Series A Subordinate Notes paid to unitholders	20.8	20.6	41.6	41.2
Interest on long-term debt	3.4	3.6	6.5	7.0
Interest on short-term debt	0.5	0.4	1.0	1.1
Income tax expense (recovery)	(0.9)	(0.1)	0.5	(0.7)
Depreciation, depletion and amortization	2.4	2.5	4.3	5.4
Amortization of deferred financing costs	0.2	0.4	0.4	0.7
EBITDA	\$ 19.7	\$ 35.9	\$ 45.2	\$ 67.0

\* 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. Management believes that the presentation of this measure will enhance an investor's understanding of the Company's operating performance.

# TIMBERWEST FOREST CORP.

## About TimberWest

TimberWest Forest Corp. is uniquely positioned as the largest owner of private forest lands in western Canada. The Company's 334,000 hectares, providing a sustainable annual harvest of 2.5 million m<sup>3</sup> of logs, are located on Vancouver Island and predominantly support the growth of Douglas fir forests, a premium species used for structural purposes. TimberWest runs fully-contracted harvesting operations. With approximately 70% of the Company's logging now being done in second-growth stands, TimberWest leads the industry in the harvest of second-growth timber. Third party auditors have certified that the management of the Company's private forest land conforms to the objectives and performance measures of the American Forest and Paper Association's Sustainable Forestry Initiative (SFI®). TimberWest also owns renewable Crown harvest rights to 0.8 million m<sup>3</sup> of logs per year and operates a lumbermill located near Campbell River, BC. In addition, approximately 6,000 hectares of the Company's private forest lands have been identified as having greater value as real estate properties and are progressively being made available for higher uses.

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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)

