



TimberWest

Industry leader in second-growth harvesting

Q-2
2006

**Second Quarter
Interim Report**

For the three & six months
ended June 30, 2006

www.timberwest.com

TSX: TWF.UN



TIMBERWEST FOREST CORP.

To Our Unitholders,

The second quarter of 2006 was another strong quarter for the Company. We generated distributable cash of \$35.5 million or \$0.46 per Stapled Unit. On a year to date basis the Company has generated approximately 80% of its annual distributable cash requirements, having generated distributable cash of \$67.0 million or \$0.86 per unit. This is considerably better than our 2005 performance when we generated \$15.4 million of distributable cash during the second quarter and \$39.3 million for the first half of that year. This year's strong financial performance resulted in TimberWest closing the quarter with its lowest net debt level ever at \$184.8 million.

Our strong financial position for the first half of the year is attributable to higher production and sales volumes, a higher-value sales mix with a higher percentage of fir, improved pricing, and solid real estate sales.

TimberWest's production volumes were strong throughout the quarter and were typical of historic second quarter results. Heavy snow pack at higher elevations resulted in harvesting taking place predominantly at lower elevations during the second quarter. As a result, the harvest mix and resulting sales mix remained weighted to Douglas fir, which is a higher-value species. Domestic sales volumes for the quarter were 430,200 m³ compared to 436,400 m³ for the same period last year, while export sales were up about 25% over the same quarter last year, with exports to Asia at 331,100 m³ and to the US at 176,300 m³.

Despite a much stronger Canadian dollar, external sales realizations were strong at \$100 per m³ this quarter compared to the second quarter of 2005 when they were \$95 per m³. The higher component of fir in the sales mix and an increase in Japanese exports were the key drivers behind this increase. In addition, prices held up reasonably well in all of our markets, with cedar price improvements the most notable.

Proceeds from the sale of real estate were \$11.4 million for the quarter, with the sale of the former Youbou sawmill site accounting for the majority of these proceeds. This is significantly higher than the second quarter of 2005 when real estate sales proceeds were \$0.3 million.

As disclosed in our first quarter unitholder materials, real estate values on Vancouver Island have climbed in recent years and this triggered an updated strategic review of our entire land portfolio by Colliers International (Colliers International Realty Advisors Inc.). We found that over an initial five-year planning horizon we had approximately 10,000 hectares of higher and better use (HBU) properties. "As is, where is", today, these lands have an estimated current market value of between \$150 million and \$200 million, as previously disclosed. Our previous quarterly materials also noted that we were continuing to work with our real estate consultants to ascertain how large our HBU inventory is for the 6- to 15-year time horizon. This more detailed work has been completed and I am pleased to report that an additional 28,000 hectares of HBU lands have been identified, making for a total potential portfolio of 38,000 hectares of HBU properties available over the next 15 years. "As is, where is", our consultants believe the current market value of our entire HBU portfolio, excluding timber, to be in the range of \$300 million to \$450 million, with the potential to increase this value over time through value-added development activities on selected properties. Even "as is, where is", this represents a premium to the carrying cost of these lands. We are continuing to evaluate the best way to realize these values for unitholders.

The sales process for the Elk Falls Lumbermill, our only remaining sawmill, is still underway with potential investors conducting due diligence on this asset. We are hopeful a successful sale can be announced later this year but there is no certainty this will materialize given the stronger Canadian dollar, Elk's financial performance, and the softwood lumber agreement recently negotiated with the US, which in its present form severely disadvantages the coastal BC industry. Labour negotiations for a new collective agreement at the sawmill have been suspended until the outcome of the sales process is known.

In the on-going effort to maintain a high standard of safety performance on our land base, our goal is to carry out safety program audits on all production-related contractors and approximately half of our forestry and silviculture contractors during 2006. During the second quarter TimberWest carried out 20 external contractor safety program audits. In addition, work procedure safety reviews were completed for the employees of three of our helilogging harvest contractors, and an audit of our Martin Mars water bombers was completed by an independent aviation consultant. We are pleased with the results of these audits and action plans have been developed to address all issues raised by these audits. We remain on track to complete the 2006 safety program objectives over the balance of the year. We are pleased to report that our

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year to date safety performance has improved over the prior year, and remain committed to making further improvements in all of our operations during the balance of the year.

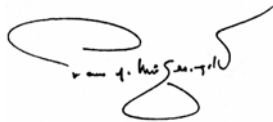
With respect to our ISO 14001 and SFI® certification, annual surveillance audits including document and field reviews of all forest lands and facilities were performed in the second quarter. KPMG Performance Registrar Inc. completed the 2006 ISO 14001 and SFI® certification audits in May 2006. The results of these audits were excellent, with only two minor non-conformances and seven opportunities identified for improvement. The two non-conformances were related to the incomplete implementation of harvesting plans. Action plans have been developed for all findings to ensure appropriate corrective and preventive measures are taken.

As we enter the second half of the year, we expect results for the next six months to be below those of the first half as our sales volumes will be lower, North American markets are anticipated to weaken and, seasonally, hemlock will become a larger proportion of our harvest mix. Housing activity in the US has begun to dampen and lumber prices are falling. In addition, hemlock is a less profitable species than Douglas fir as it has more limited and lower-value end uses – it continues to be a challenge for us, as it is for all of our peers on the coast. This situation is exacerbated by the fact that the coastal sawmills that cut hemlock are all struggling financially, although some are beginning to restructure. In addition, the strong Canadian dollar also limits our export markets for this species. As well, the third quarter of 2006 has already begun with very hot weather on the coast and we have taken more downtime than usual so far this quarter.

While our production costs have increased quarter-over-quarter, they continue to track favourably to historic costs, however, the strong Canadian dollar has diminished the margin improvement that we achieved with our Operations Excellence strategy over the last five years.

Despite the fact that the second half of the year is expected to be weaker than the first half, we are confident that TimberWest will generate enough distributable cash from its timberland and real estate operations to cover its distribution requirements for 2006.

On behalf of the Board of Directors



Paul J. McElligott
President and Chief Executive Officer

Vancouver, British Columbia
August 3, 2006

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Management's Discussion and Analysis

For the three and six months ended June 30, 2006 and 2005

Management's Discussion and Analysis supplements, but does not form part of, the unaudited interim consolidated financial statements of TimberWest Forest Corp. ("TimberWest" or "the Company") and the notes thereto for the second quarter of 2006. 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 2006 relative to the second quarter and year to date of 2005, and that have affected the Company's financial position as at June 30, 2006, relative to December 31, 2005. Factors that could affect future operations are also discussed. These factors may be affected by known and unknown risks and uncertainties that may cause the actual future results of the Company to be materially different than those expressed or implied in this discussion. These risks and uncertainties are described herein and in the Management's Discussion and Analysis contained in the Company's 2005 Annual Report.

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

This Management's Discussion and Analysis has been prepared based on information available as at August 3, 2006.

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

Distributable Cash

<i>(in millions of dollars)</i>	Three months ended		Six months ended	
	June 30, 2006	June 30, 2005	June 30, 2006	June 30, 2005
Net earnings (loss)	\$ 12.2	\$ (6.7)	\$ 15.1	\$ (9.1)
Interest on Series A Subordinate Notes owned by unitholders	20.9	20.8	41.8	41.6
Earnings available for distribution	33.1	14.1	56.9	32.5
Future income tax expense (recovery)	(21.6)	(1.1)	(24.2)	0.1
Earnings available for distribution before provision for future income taxes	11.5	13.0	32.7	32.6
Add (deduct):				
Depreciation, depletion and amortization	2.3	2.6	4.7	4.7
Proceeds from sale of property, plant and equipment	11.4	3.8	16.9	30.6
(Gain) loss on sale of property, plant and equipment	(6.1)	0.5	(2.7)	(6.3)
Additions to property, plant and equipment	(1.1)	(4.5)	(1.5)	(22.3)
Other non-cash items	17.5	—	16.9	—
	24.0	2.4	34.3	6.7
Distributable cash	\$ 35.5	\$ 15.4	\$ 67.0	\$ 39.3
Per Stapled Unit amounts: <i>(in dollars)</i>				
Basic and diluted earnings available for distribution before provision for future income taxes per weighted average Stapled Unit	\$ 0.15	\$ 0.17	\$ 0.42	\$ 0.42
Basic and diluted distributable cash per weighted average Stapled Unit	\$ 0.46	\$ 0.20	\$ 0.86	\$ 0.51
Cash distributions paid per Stapled Unit	\$ 0.27	\$ 0.27	\$ 0.54	\$ 0.54

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

<i>(in millions of dollars)</i>	Three months ended		Six months ended	
	June 30, 2006	June 30, 2005	June 30, 2006	June 30, 2005
Cash flow from operations before changes in working capital	\$ 2.8	\$ (4.5)	\$ 9.5	\$ (10.0)
Add (deduct):				
Interest on Series A Subordinate Notes owned by unitholders	20.9	20.8	41.8	41.6
Proceeds from sale of property, plant and equipment	11.4	3.8	16.9	30.6
Additions to property, plant and equipment	(1.1)	(4.5)	(1.5)	(22.3)
Other non-cash items	1.5	(0.2)	0.3	(0.6)
	32.7	19.9	57.5	49.3
Distributable cash	\$ 35.5	\$ 15.4	\$ 67.0	\$ 39.3

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 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.

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:

	2006	2005	2004	2003	2002	2001
Distributable Cash						
<i>(in millions of dollars)</i>						
First quarter	\$ 31.5	\$ 23.9	\$ 27.7	\$ 25.7	\$ 21.2	\$ 25.9
Second quarter	35.5	15.4	43.5	4.7	10.6	26.7
Third quarter		(1.7)	35.9	12.0	34.1	14.1
Fourth quarter		29.7	18.1	9.0	24.2	16.8
	\$ 67.0	\$ 67.3	\$ 125.2	\$ 51.4	\$ 90.1	\$ 83.5
Distributable Cash per Stapled Unit ¹						
<i>(in dollars)</i>						
First quarter	\$ 0.41	\$ 0.31	\$ 0.36	\$ 0.34	\$ 0.30	\$ 0.40
Second quarter	0.46	0.20	0.57	0.06	0.14	0.41
Third quarter		(0.02)	0.47	0.15	0.45	0.22
Fourth quarter		0.38	0.24	0.12	0.32	0.26
	\$ 0.86	\$ 0.87	\$ 1.64	\$ 0.67	\$ 1.21	\$ 1.29

¹ Per Stapled Unit amounts by quarter do not necessarily add to the total of the year and year-to-date due to changes in the weighted average number of Stapled Units outstanding during the year.

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Quarterly Financial Highlights

TimberWest generated distributable cash of \$35.5 million or basic and diluted distributable cash of \$0.46 per weighted average Stapled Unit for the three months ended June 30, 2006, compared to distributable cash of \$15.4 million or basic and diluted distributable cash of \$0.20 per weighted average Stapled Unit for the same period in 2005. The increase in distributable cash from the prior year period can be primarily attributed to stronger operating results for the second quarter of 2006, reflecting both an increase in log and lumber sales volumes and higher average realizations on log and lumber sales due to a richer sales mix and improved pricing. In addition, there was increased real estate activity in the second quarter of 2006, generating proceeds of \$11.4 million compared to proceeds of \$0.3 million for the prior year period. Earnings available for distribution for the three months ended June 30, 2006, before provision for future income taxes, were \$11.5 million or \$0.15 per basic and diluted weighted average Stapled Unit compared to \$13.0 million or \$0.17 per basic and diluted weighted average Stapled Unit for the comparative period in 2005.

Sales for the three months ended June 30, 2006, were \$145.6 million compared to sales of \$107.6 million reported for the comparative period in 2005. Operating earnings were \$32.6 million or 22% of sales for the second quarter of 2006 compared to \$17.8 million or 17% of sales for the same period in 2005. The year-over-year strengthening of the operating margin primarily reflects higher average realizations on log and lumber sales, which were up 5% and 21%, respectively, and an increase in log and lumber sales volumes, up 11% and 24%, respectively, compared to the same period in 2005. The Company recorded a \$17.2 million non-cash pension expense in the second quarter of 2006 related to the annuitization and transfer of certain pension plan obligations to a financial institution during the quarter (see Highlights and Significant Transactions – *Pension Plan Annuitization*). Earnings before interest, taxes, depreciation and amortization (EBITDA)² for the three months ended June 30, 2006, were \$17.5 million or \$0.23 per basic and diluted weighted average Stapled Unit compared to \$19.7 million or \$0.26 per basic and diluted weighted average Stapled Unit for the comparative period in 2005. The Company reported an income tax recovery of \$21.5 million for the three months ended June 30, 2006, including a non-cash future income tax recovery of \$21.6 million comprised primarily of a \$14.8 million recovery to reflect the effect of changes in Canadian federal income tax rates that were substantively enacted during the quarter, and a \$5.8 million recovery arising from the pension plan annuitization transaction completed in the second quarter of 2006. Net earnings for the three months ended June 30, 2006, were \$12.2 million, equating to basic and diluted net earnings of \$0.16 per weighted average common share, compared to a net loss of \$6.7 million or a basic and diluted net loss of \$0.09 per weighted average common share for the comparative period in 2005.

Year to Date Financial Highlights

TimberWest generated distributable cash of \$67.0 million or basic and diluted distributable cash of \$0.86 per weighted average Stapled Unit for the six months ended June 30, 2006, compared to distributable cash of \$39.3 million or basic and diluted distributable cash of \$0.51 per weighted average Stapled Unit for the same period in 2005. Distributable cash benefited from strong operating results for the first half of 2006, including increased log and lumber production and sales volumes as well as higher average realizations on log and lumber sales due to a richer sales mix and improved pricing. Distributable cash also benefited from increased real estate activity in the first six months of 2006, generating real estate sales proceeds of \$16.9 million compared to proceeds of \$2.0 million for the prior year period. Distributable cash results for the first six months of 2005 reflect atypical property, plant and equipment transactions, 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. Earnings available for distribution for the six months ended June 30, 2006, before provision for future income taxes, were \$32.7 million or \$0.42 per basic and diluted weighted average Stapled Unit compared to \$32.6 million or \$0.42 per basic and diluted weighted average Stapled Unit for the comparative period in 2005.

Sales for the six months ended June 30, 2006 were \$271.9 million compared to sales of \$206.2 million reported for the comparative period in 2005. Operating earnings were \$57.9 million or 21% of sales for the

² EBITDA is a measure that does not have a standardized meaning prescribed by GAAP and may not be comparable to similar measures presented by other companies. Management believes that the presentation of this measure will enhance an investor's understanding of the Company's operating performance. A reconciliation of net earnings (loss) as determined in accordance with GAAP and EBITDA is provided in the supplemental information appended to this interim report.

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first half of 2006 compared to \$35.1 million or 17% of sales for the same period in 2005. The year over year strengthening of the operating margin primarily reflects higher average realizations on log and lumber sales, which were up 5% and 16%, respectively, and an increase in log and lumber sales volumes, up 12% and 29%, respectively, compared to the same period in 2005. As noted in the quarterly financial highlights, June 30, 2006, year to date results reflect a \$17.2 million non-cash pension expense related to the annuitization and transfer of certain pension plan obligations completed during the second quarter of 2006. EBITDA for the six months ended June 30, 2006, were \$45.0 million or \$0.58 per basic and diluted weighted average Stapled Unit compared to \$45.2 million or \$0.59 per basic and diluted weighted average Stapled Unit for the comparative period in 2005. The Company reported an income tax recovery of \$24.0 million for the six months ended June 30, 2006, including a non-cash future income tax recovery of \$24.2 million comprised primarily of a \$14.8 million recovery to reflect the effect of changes in Canadian federal income tax rates that were substantively enacted during the second quarter of 2006, and a \$5.8 million recovery arising from the pension plan annuitization transaction completed in the second quarter of 2006. Net earnings for the six months ended June 30, 2006, were \$15.1 million, equating to basic and diluted net earnings of \$0.19 per weighted average common share, compared to a net loss of \$9.1 million or a basic and diluted net loss of \$0.12 per weighted average common share for the comparative period in 2005.

Highlights and Significant Transactions

Pension Plan Annuitization

During the second quarter of 2006, the Company entered into an agreement with a financial institution to purchase annuities for all retirees in the Company's salaried employee defined benefit pension plans. Effective April 15, 2006, \$89.7 million of pension obligations were transferred to the financial institution at a cost to the Company of \$1.1 million. In addition, the Company recorded a \$17.2 million non-cash pension expense in the second quarter of 2006 related to this transaction, representing the unamortized net actuarial loss associated with retiree pension obligations at the transaction date that would have otherwise been amortized over the expected life of the pension plan.

Subsequent to June 30, 2006, the Company entered into an agreement with a financial institution to purchase annuities for members of one of the Company's remaining small defined benefit pension plans. Effective July 14, 2006, \$1.0 million of pension obligations and \$1.4 million of pension assets were transferred to the financial institution. As this pension plan was in a surplus position at the time of the transaction, there was no cost to the Company and no pension expense has been recorded in relation to this transaction.

TimberWest believes these transactions provide security for retirees, while eliminating an encumbrance from its business at a minimal cost.

Cash Distribution

On August 3, 2006, TimberWest announced a distribution of \$0.269 per Stapled Unit, payable October 15, 2006, to unitholders of record on October 1, 2006. From inception to June 30, 2006, the Company has generated distributable cash of \$731.1 million while, including the July 15, 2006 distribution of \$20.9 million, the Company has paid out \$691.9 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, 2006, were \$94.1 million, up 17% from log sales of \$80.1 million for the quarter ended June 30, 2005. This increase reflects an 11% increase in log sales volume, with 937,600 m³ of logs sold in the second quarter of 2006, and a 5% increase in overall log sales realizations, averaging \$100 per m³ for the second quarter of 2006. Log sales volumes into the domestic market were down 1% over the comparative period in 2005. Export log sales volumes were up 25% or 101,200 m³ over the comparative period in 2005, including a 38% increase in volumes sold into all Asian markets and a 6% increase in volumes sold into the US. As with the first quarter of 2006, some of this second quarter increased export volume can be attributed to fibre freed up as the result of the 2005 repurchase of the

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Western Forest Products Inc. fibre supply agreement. Export realizations continue to be negatively affected by the strength of the Canadian dollar, with the Canadian dollar approximately 11% stronger relative to the US dollar during the second quarter of 2006 compared to the same period in 2005. However, pricing levels in the second quarter of 2006 were supported by a lower supply of logs in many of the Company's market segments. As with the first quarter, TimberWest continued to take advantage of the flexibility provided by its private timberland asset base by increasing harvest levels, resulting in a greater than typical proportion of second-growth Douglas fir. The operating margin from timberland operations for the second quarter of 2006 averaged 34% of log sales, compared to 32% of log sales for the second quarter of 2005. The improved results for 2006 reflect the effects of higher average log sales realizations discussed previously, offset in part by an increase in production costs for the quarter, coming in at \$66 per m³, compared to \$62 per m³ for the comparative period in 2005. The increase in per unit production costs can primarily be attributed to contractor rate adjustments.

Log sales for the six months ended June 30, 2006, were \$179.7 million, up 18% from log sales of \$152.7 million for the six months ended June 30, 2005. This increase reflects a 12% increase in log sales volume, with 1,826,800 m³ of logs sold in the first half of 2006, and a 5% increase in overall log sales realizations, averaging \$98 per m³ for the first six months of 2006. On a year to date basis, log sales volumes into the domestic market were down 3% over the comparative period in 2005. Export log sales volumes were up 30% or 216,600 m³ over the comparative period in 2005, including a 44% increase in volumes sold into all Asian markets and an 11% increase in volumes sold into the US. Export sales to the key Japanese market represented 56% of total exports compared to 45% of total export sales in the comparative period of 2005. This increase in volume to Japan has had a significant positive impact on current year to date sales realizations. As noted under the quarterly highlights, some of the increased export volume in 2006 can be attributed to fibre freed up as the result of the repurchase of a fibre supply agreement in late 2005. The Canadian dollar was approximately 9% stronger relative to the US dollar during the first six months of 2006 compared to the same period in 2005, and continued to negatively affect export realizations. However, improved log pricing prevailed through the first six months of 2006 due to supply shortages in the Company's market segments. As noted, the flexibility provided by TimberWest's private timberland asset base allowed the Company to take advantage of strong markets early in the year by increasing harvest levels. Average log sales realizations were boosted by a sales mix more heavily weighted in higher-value Douglas fir. The operating margin from timberland operations for the first half of 2006 averaged 36% of log sales, compared to 31% of log sales for comparative period in 2005. The improved results for 2006 reflect the effects of higher average log sales realizations discussed previously, offset in part by a slight increase in production costs, coming in at \$61 per m³, compared to \$60 per m³ for the comparative period in 2005.

Lumber sales for the three months ended June 30, 2006, of \$33.9 million were 50% higher than sales of \$22.6 million for the quarter ended June 30, 2005. This increase reflects a 24% increase in lumber volumes sold and a 21% increase in average lumber sales realizations compared to the same period in 2005. The lumbermill benefited from continued strength in demand from Japan due to short supply in that market. Production at the lumbermill was 47.3 million board feet of lumber in the second quarter of 2006, up approximately 62% compared to production in the same period of 2005, reflecting the effects of five weeks of market-related downtime taken during the second quarter of 2005.

Lumber sales for the six months ended June 30, 2006, of \$61.9 million were 50% greater than sales of \$41.2 million for the first six months of 2005. This increase reflects a 29% increase in lumber volumes sold and a 16% increase in average lumber sales realizations compared to the same period in 2005. During the first half of 2006, at a time when many competitors were taking downtime, the lumbermill was able to maintain consistent supply to customers. The lumbermill has also benefited from improved demand in the Japanese market due to short supply in that market. Production at the lumbermill was 96.1 million board feet of lumber in the first half of 2006, up approximately 26% compared to production in the same period of 2005, reflecting the effect of five weeks of market-related downtime taken during the second quarter of 2005.

Wood chip sales for both the three and six month periods ended June 30, 2006, of \$3.1 million and \$6.5 million, respectively, were ahead of sales for the comparative periods in 2005 of \$2.0 million and \$4.8 million, respectively, reflecting increased available chip volumes due to increased production at the lumbermill, offset in part by lower average chip sales realizations resulting from species mix changes.

Real estate activity for the second quarter of 2006 generated revenues of \$12.1 million compared to revenues of \$0.6 million for the second quarter of 2005. As part of the Company's expanded real estate

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program, sales of higher use properties netted proceeds of \$11.4 million for the quarter, considerably greater than proceeds of \$0.3 million for the same period in 2005. Year to date, 2006 real estate activity generated revenues of \$18.7 million, well ahead of the \$2.5 million generated for the first half of 2005. Proceeds from the sale of higher use properties for the six months ended June 30, 2006, were \$16.9 million compared to \$2.0 million for the comparative period in 2005.

Financial Position

Current assets increased \$3.3 million to \$92.1 million at June 30, 2006, up from \$88.8 million as at December 31, 2005. Cash and cash equivalents increased \$7.2 million to \$10.2 million at June 30, 2006, reflecting strong second quarter cash flows and no drawings on available credit facilities at June 30, 2006. Inventories were \$48.5 million at June 30, 2006, comparable to \$48.2 million as at December 31, 2005. Accounts receivable, prepaid expenses and other current assets, and the future income tax asset at June 30, 2006, have all decreased slightly from December 31, 2005.

Property, plant and equipment were \$1,301.2 million as at June 30, 2006, \$17.2 million less than as at December 31, 2005. This decrease primarily reflects the sale of property, plant and equipment with a net book value of \$14.2 million during the first half of 2006, including higher and better use properties, as well as a provision for depreciation of capital assets of \$4.4 million recorded during the first six months of the 2006. These items were offset in part by year to date capital additions of \$1.5 million.

Other assets were \$3.1 million at June 30, 2006, down considerably from the balance of \$11.9 million at December 31, 2005. Of note is the elimination of a prepaid pension benefit asset from other assets as a result of the transfer of \$89.7 million in pension obligations to a financial institution on the annuitization and transfer of certain pension obligations that was completed in the second quarter of 2006 (see Highlights and Significant Transactions – *Pension Plan Annuitization*).

Current liabilities as at June 30, 2006, were \$65.3 million compared to \$51.0 million as at December 31, 2005. This variance can be attributed to a \$14.3 million increase in accounts payable and accrued liabilities, including an increase in amounts owing to contractors as a result of increased harvest levels during the second quarter of 2006 compared to the fourth quarter of 2005.

As at June 30, 2006, the Company had no borrowings on its available credit facilities and had commitments of \$16.9 million relating to outstanding letters of credit, including \$16.3 million issued under its demand bank guarantee facility and \$0.6 million issued under its \$100.0 million long-term unsecured revolving facility.

Long-term financial liabilities as at June 30, 2006, were comprised of \$195.0 million aggregate principal amount of 7.0% unsecured senior debentures due October 1, 2007.

Other long-term liabilities as at June 30, 2006, included a silviculture liability of \$3.3 million, a \$37.3 million liability relating to employee future benefits and a future income tax liability of \$160.4 million. The silviculture liability at June 30, 2006, is comparable to the balance of \$3.2 million as at December 31, 2005. The \$8.7 million increase in employee future benefits from the balance of \$28.6 million at December 31, 2005, is attributable to a reclassification of the liability for certain pension obligations (see Highlights and Significant Transactions – *Pension Plan Annuitization*). The \$24.5 million decrease in the liability for future income taxes from the balance of \$184.9 million at December 31, 2005, is primarily attributable to a \$14.8 million future income tax recovery recorded in the second quarter of 2006 to reflect the effects of changes in Canadian federal income tax rates that were substantively enacted during the quarter and a \$5.8 million future income tax recovery arising from the pension plan annuitization transaction completed in the second quarter of 2006.

The Series A Subordinate Note component of the Company's Stapled Unit is presented as a liability on the Company's consolidated balance sheets. As at June 30, 2006, the Series A Subordinate Note liability was \$696.1 million.

During the quarter ended June 30, 2006, options to purchase 23,901 Stapled Units were exercised for proceeds of \$0.3 million. During the six months ended June 30, 2006, 245,238 Stapled Unit options were granted and options to purchase 42,092 Stapled Units were exercised for proceeds of \$0.5 million. As at August 3, 2006, the Company had 1,043,450 granted and outstanding Stapled Unit option awards and 77,544,838 issued and outstanding Stapled Units.

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Cash Flow and Liquidity

Cash provided by operations before changes in non-cash working capital for the three months ended June 30, 2006, was \$2.8 million or \$0.04 per weighted average Stapled Unit compared to cash used in operations before changes in non-cash working capital of \$4.5 million or \$0.06 per weighted average Stapled Unit for the same period in 2005. During the second quarter of 2006, non-cash working capital decreased by \$5.4 million compared to a \$19.2 million increase reported for the same period in 2005. The current period decrease reflects the net effect of a decrease in accounts receivable and inventories and an increase in accounts payable and accrued liabilities, offset in part by an increase in prepaid expenses and other working capital compared to balances at December 31, 2005.

Cash provided by operations before changes in non-cash working capital for the six months ended June 30, 2006, was \$9.5 million or \$0.12 per weighted average Stapled Unit compared to cash used in operations before changes in non-cash working capital of \$10.0 million or \$0.13 per weighted average Stapled Unit for the corresponding period in 2005. For the six months ended June 30, 2006, non-cash working capital decreased \$17.9 million compared to a \$17.6 million increase for the same period in 2005. The current year decrease reflects the net effect of a decrease in accounts receivable, prepaid expenses and other working capital and an increase in accounts payable and accrued liabilities, offset in part by an increase in inventories compared to balances at December 31, 2005.

Net cash used in financing activities during the three months ended June 30, 2006, was \$10.7 million compared to \$24.6 million provided by financing activities in the comparative period of 2005. During the three months ended June 30, 2006, the Company issued 23,901 Stapled Units on the exercise of Stapled Unit options for net proceeds of \$0.3 million, compared to the issuance of 152,517 Stapled Units on the exercise of Stapled Unit options for net proceeds of \$1.7 million in the comparative period of 2005. During the second quarter of 2006, \$11.0 million was applied to reduce amounts borrowed on available credit facilities, whereas \$22.7 million was borrowed on available credit facilities in the comparative period in 2005.

Net cash used in financing activities during the six months ended June 30, 2006 was \$36.5 million compared to \$18.7 million provided by financing activities in the comparative period of 2005. During the six months ended June 30, 2006, the Company issued 42,092 Stapled Units for net proceeds of \$0.5 million on the exercise of Stapled Unit options, compared to the issuance of 357,846 Stapled Units for net proceeds of \$4.2 million on the exercise of Stapled Unit options in the comparative period in 2005. In addition, during the first half of 2006, \$37.0 million was applied to reduce amounts borrowed on available credit facilities compared to \$14.3 million borrowed on available credit facilities during the same period in 2005.

Net cash provided by investing activities during the three months ended June 30, 2006, was \$11.7 million compared to \$0.9 million used in investing activities during the comparative period of 2005. In the second quarter of 2006, the Company received net proceeds of \$11.4 million from the sale of property, plant and equipment, primarily from the sale of higher use properties, and incurred \$1.1 million for capital expenditures, primarily on the construction of logging roads.

Net cash provided by investing activities during the first six months of 2006 was \$16.3 million compared to net cash provided by investing activities of \$7.3 million for the same period of 2005. During the first half of 2006, the Company received net proceeds of \$16.9 million from the sale of property, plant and equipment, primarily from the sale of higher use properties, and incurred \$1.5 million for capital expenditures, primarily on the construction of logging roads. Comparative figures for 2005 reflect transactions related to the business transformation initiative completed during that period, including \$17.0 million for the buy-out of leases on Company-operated logging equipment which was subsequently sold to the Company's new long-term contractors, 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 that year.

As at June 30, 2006, TimberWest's total debt³ outstanding was \$195.0 million compared to total debt outstanding of \$232.0 million as at December 31, 2005. It is noteworthy that the Company closed the

³ Total debt and the debt-to-total capitalization ratio are measures that do not have a standardized meaning prescribed by GAAP and may not be comparable to similar measures presented by other companies. As the Company's Series A Subordinate Notes trade only as part of the Company's equity instrument, the Stapled Unit, they are not included in the Company's definition of debt. Management



TIMBERWEST FOREST CORP.

second quarter of 2006 at its lowest debt level since inception. The Company's consolidated debt-to-total capitalization ratio³ as at June 30, 2006 was 17:83, more favourable than 20:80 as at December 31, 2005.

Total debt facilities available to the Company as at June 30, 2006, were \$386.3 million, comprised of \$10.0 million available under a demand operating credit facility, \$16.3 million available under a demand bank guarantee facility, \$65.0 million available under a revolving facility due July 7, 2010, \$100.0 million available under a revolving facility due July 27, 2010 and \$195.0 million of 7.0% debentures maturing on October 1, 2007. As at June 30, 2006, the Company had commitments of \$16.9 million relating to outstanding letters of credit issued to secure various obligations of the Company, including \$16.3 million issued under its demand bank guarantee facility and \$0.6 million issued under its \$100.0 million long-term unsecured revolving facility.

believes that the presentation of these measures will enhance an investor's understanding of the Company's financial resources and capital structure.

TIMBERWEST FOREST CORP.

Quarterly Financial Information

The following table presents selected unaudited quarterly financial information for each of the Company's last eight quarters. This data has been derived from unaudited interim consolidated financial statements that have been prepared on the same basis as the 2005 annual audited consolidated financial statements. In the Company's opinion, the amounts include all normal recurring adjustments necessary for the fair presentation of such information. These financial results are not necessarily indicative of results for any future period and should not be relied upon to predict future performance.

<i>(in millions of dollars, except per common share and per Stapled Unit amounts)</i>	2004		2005				2006	
	Q3	Q4	Q1	Q2	Q3	Q4	Q1	Q2
Sales	\$ 119.9	\$ 114.9	\$ 98.6	\$ 107.6	\$ 119.2	\$ 132.8	\$ 126.3	\$ 145.6
Operating earnings	\$ 23.0	\$ 15.0	\$ 17.3	\$ 17.8	\$ 14.0	\$ 21.0	\$ 25.3	\$ 32.6
Net earnings (loss) before extraordinary item	\$ 3.6	\$ (1.2)	\$ (2.4)	\$ (6.7)	\$ (17.0)	\$ 30.9	\$ 2.9	\$ 12.2
Extraordinary item, net of applicable income taxes	\$ 9.0	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -
Net earnings (loss)	\$ 12.6	\$ (1.2)	\$ (2.4)	\$ (6.7)	\$ (17.0)	\$ 30.9	\$ 2.9	\$ 12.2
Earnings available for distribution	\$ 33.2	\$ 19.5	\$ 18.4	\$ 14.1	\$ 3.8	\$ 51.8	\$ 23.8	\$ 33.1
Earnings available for distribution before provision for future income taxes	\$ 33.0	\$ 13.2	\$ 19.6	\$ 13.0	\$ (6.9)	\$ 24.3	\$ 21.2	\$ 11.5
Distributable cash before extraordinary item	\$ 21.9	\$ 18.1	\$ 23.9	\$ 15.4	\$ (1.7)	\$ 29.7	\$ 31.5	\$ 35.5
Distributable cash from extraordinary item	\$ 14.0	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -
Distributable cash	\$ 35.9	\$ 18.1	\$ 23.9	\$ 15.4	\$ (1.7)	\$ 29.7	\$ 31.5	\$ 35.5
Distributions paid	\$ 20.6	\$ 20.6	\$ 20.7	\$ 20.8	\$ 20.8	\$ 20.8	\$ 20.9	\$ 20.9
<i>\$ per common share</i> ⁴								
Basic and diluted net earnings (loss) before extraordinary item	\$ 0.05	\$ (0.02)	\$ (0.03)	\$ (0.09)	\$ (0.22)	\$ 0.40	\$ 0.04	\$ 0.16
Extraordinary item	\$ 0.11	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -
Basic and diluted net earnings (loss) after extraordinary item	\$ 0.16	\$ (0.02)	\$ (0.03)	\$ (0.09)	\$ (0.22)	\$ 0.40	\$ 0.04	\$ 0.16
<i>\$ per Stapled Unit</i> ⁴								
Basic and diluted earnings available for distribution	\$ 0.43	\$ 0.25	\$ 0.24	\$ 0.18	\$ 0.05	\$ 0.67	\$ 0.31	\$ 0.43
Basic and diluted earnings available for distribution before provision for future income taxes	\$ 0.43	\$ 0.17	\$ 0.25	\$ 0.17	\$ (0.09)	\$ 0.31	\$ 0.27	\$ 0.15
Basic and diluted distributable cash before extraordinary item	\$ 0.29	\$ 0.24	\$ 0.31	\$ 0.20	\$ (0.02)	\$ 0.38	\$ 0.41	\$ 0.46
Basic and diluted distributable cash from extraordinary item	\$ 0.18	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -
Basic and diluted distributable cash	\$ 0.47	\$ 0.24	\$ 0.31	\$ 0.20	\$ (0.02)	\$ 0.38	\$ 0.41	\$ 0.46
Distributions paid	\$ 0.27	\$ 0.27	\$ 0.27	\$ 0.27	\$ 0.27	\$ 0.27	\$ 0.27	\$ 0.27

⁴ Per common share and per Stapled Unit amounts presented for each quarter have been determined based on the weighted average number of common shares or weighted average number of Stapled Units outstanding during the quarter. Per common share and per Stapled Unit amounts by quarter do not necessarily add to the total of the year due to changes in the weighted average number of common shares and Stapled Units outstanding during the year.



TIMBERWEST FOREST CORP.

Outlook

As we look forward to the second half of the year, we expect our results to be below those of the first half as sales volumes will be lower, fire season will affect the timing of production, North American markets are expected to weaken and hemlock is expected to become a larger proportion of our harvest mix. Hemlock is a lower value species and the weak coastal forest industry which consumes the bulk of our hemlock, coupled with a strong Canadian dollar, make the profitability of this species marginal.

Housing starts in the US are beginning to decline and expectations are for this to persist through the balance of the year. As a result, North American lumber prices have trended downward – a condition that economic forecasts suggest will continue through the balance of the year. We expect log prices will follow this trend, although log prices typically lag lumber prices.

In Japan, log and lumber markets are strong and we expect this to continue for the balance of the year.

Real estate sales will continue at higher than historic levels for the rest of the year.

Notwithstanding the strong Canadian dollar and a seasonally weaker end-use sort mix, we are confident that the Company will generate enough distributable cash from its timberland and real estate operations to cover its distribution requirements for 2006.

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, 2006	June 30, 2005	June 30, 2006	June 30, 2005
Sales	\$ 145.6	\$ 107.6	\$ 271.9	\$ 206.2
Operating costs and expenses:				
Cost of products sold	106.9	84.3	202.1	160.2
Depreciation, depletion and amortization	2.2	2.4	4.4	4.3
Selling, administrative and other	3.9	3.1	7.5	6.6
	113.0	89.8	214.0	171.1
Operating earnings	32.6	17.8	57.9	35.1
Interest expense:				
Series A Subordinate Notes owned by unitholders	20.9	20.8	41.8	41.6
Long-term debt	3.6	3.4	7.4	6.5
Short-term debt	—	0.5	—	1.0
	24.5	24.7	49.2	49.1
Amortization of deferred financing costs	0.1	0.2	0.3	0.4
Other (income) expense	0.1	0.5	0.1	(5.8)
Pension plan annuitization (note 7)	17.2	—	17.2	—
	41.9	25.4	66.8	43.7
Loss before income taxes	(9.3)	(7.6)	(8.9)	(8.6)
Income tax expense (recovery) (note 2)	(21.5)	(0.9)	(24.0)	0.5
Net earnings (loss)	\$ 12.2	\$ (6.7)	\$ 15.1	\$ (9.1)
Basic and diluted earnings (loss) per common share (note 3)	\$ 0.16	\$ (0.09)	\$ 0.19	\$ (0.12)

Consolidated Statements of Retained Earnings

(in millions of dollars)
Unaudited

	Three months ended		Six months ended	
	June 30, 2006	June 30, 2005	June 30, 2006	June 30, 2005
Retained earnings, beginning of period	\$ 36.1	\$ 26.0	\$ 33.2	\$ 28.4
Net earnings (loss) for the period	12.2	(6.7)	15.1	(9.1)
Retained earnings, end of period	\$ 48.3	\$ 19.3	\$ 48.3	\$ 19.3

See accompanying notes to unaudited interim consolidated financial statements.

TIMBERWEST FOREST CORP.

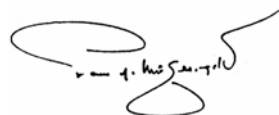
Consolidated Balance Sheets

(in millions of dollars)

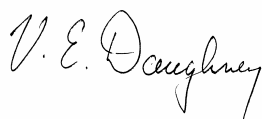
	As at June 30, 2006 <i>Unaudited</i>	As at December 31, 2005
Assets		
Current assets:		
Cash and cash equivalents	\$ 10.2	\$ 3.0
Accounts receivable	21.6	23.9
Inventories	48.5	48.2
Prepaid expenses and other current assets	9.6	11.2
Future income taxes	2.2	2.5
	92.1	88.8
Property, plant and equipment, net (note 4)	1,301.2	1,318.4
Other assets (note 5)	3.1	11.9
	\$ 1,396.4	\$ 1,419.1
Liabilities and Unitholders' Equity		
Current liabilities:		
Accounts payable and accrued liabilities	\$ 44.4	\$ 30.1
Distribution payable	20.9	20.9
	65.3	51.0
Revolving credit facilities (note 6)	—	37.0
Debentures	195.0	195.0
Long-term silviculture liability	3.3	3.2
Employee future benefits (note 7)	37.3	28.6
Future income taxes	160.4	184.9
	461.3	499.7
Series A Subordinate Notes owned by unitholders (note 8)	696.1	695.7
	1,157.4	1,195.4
Unitholders' equity:		
Share capital, consisting of common and preferred shares (note 8)	189.9	189.8
Contributed surplus	0.8	0.7
Retained earnings	48.3	33.2
	239.0	223.7
	\$ 1,396.4	\$ 1,419.1

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, 2006	June 30, 2005	June 30, 2006	June 30, 2005
Cash provided by (used in):				
Operating activities:				
Net earnings (loss)	\$ 12.2	\$ (6.7)	\$ 15.1	\$ (9.1)
Items not involving cash:				
Depreciation, depletion and amortization	2.3	2.6	4.7	4.7
(Gain) loss on sale of property, plant and equipment	(6.1)	0.5	(2.7)	(6.3)
Future income tax expense (recovery)	(21.6)	(1.1)	(24.2)	0.1
Other non-cash items	16.0	0.2	16.6	0.6
	2.8	(4.5)	9.5	(10.0)
Changes in non-cash working capital:				
Accounts receivable	1.5	0.1	2.3	(13.5)
Inventories	6.2	(15.3)	(0.3)	(8.4)
Prepaid expenses and other	(3.1)	(2.8)	1.6	(2.7)
Accounts payable and accrued liabilities	0.8	(1.2)	14.3	6.9
Distribution payable	—	—	—	0.1
	8.2	(23.7)	27.4	(27.6)
Financing activities:				
Issuance of Stapled Units on exercise of options:				
Series A Subordinate Notes	0.2	1.4	0.4	3.2
Share capital	0.1	0.3	0.1	1.0
	0.3	1.7	0.5	4.2
Forfeited distribution equivalent awards	—	0.2	—	0.2
Revolving credit facilities	(11.0)	22.7	(37.0)	14.3
	(10.7)	24.6	(36.5)	18.7
Investing activities:				
Proceeds from sale of property, plant and equipment	11.4	3.8	16.9	30.6
Additions to property, plant and equipment	(1.1)	(4.5)	(1.5)	(22.3)
Other assets	1.4	(0.2)	0.9	(1.0)
	11.7	(0.9)	16.3	7.3
Increase (decrease) in cash and cash equivalents	9.2	—	7.2	(1.6)
Cash and cash equivalents, beginning of period	1.0	—	3.0	1.6
Cash and cash equivalents, end of period	\$ 10.2	\$ —	\$ 10.2	\$ —
Supplemental information:				
Interest on Series A Subordinate Notes paid to unitholders	\$ 20.9	\$ 20.8	\$ 41.8	\$ 41.5
Other interest paid	\$ 7.0	\$ 7.4	\$ 7.4	\$ 7.8
Income taxes paid	\$ 0.2	\$ 0.2	\$ 0.3	\$ 0.3

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, 2006 and 2005

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

1. Significant Accounting Policies

The accompanying unaudited interim consolidated financial statements include the accounts of TimberWest Forest Corp. and its subsidiaries ("the Company"), have been prepared in accordance with Canadian generally accepted accounting principles and are expressed in Canadian dollars. Not all disclosures required by Canadian generally accepted accounting principles for annual financial statements are presented and, accordingly, these interim consolidated financial statements should be read in conjunction with the Company's most recent annual consolidated financial statements. These interim consolidated financial statements follow the same accounting policies and methods of application used in the Company's audited annual consolidated financial statements of December 31, 2005.

2. Income Taxes

	Three months ended		Six months ended	
	June 30, 2006	June 30, 2005	June 30, 2006	June 30, 2005
Current income tax expense				
Large corporation tax	\$ 0.1	\$ 0.2	\$ 0.2	\$ 0.4
Future income tax expense (recovery)	(21.6)	(1.1)	(24.2)	0.1
	\$ (21.5)	\$ (0.9)	\$ (24.0)	\$ 0.5

During the three months ended June 30, 2006, a number of changes to Canadian federal income tax rates were substantively enacted, including: elimination of the Large Corporations Tax (LCT), effective January 1, 2006; elimination of the 4% surtax effective January 1, 2008; and the reduction of the federal general corporate income tax rate to 20.5% for 2008, 20% for 2009, and 19% for 2010 and subsequent years. These changes will result in a reduction in the combined federal and provincial statutory corporate income tax rate from its present rate of 34.12% to 32.5% for 2008, 32.0% for 2009, and 31.0% for 2010 and subsequent years. As a result of these future income tax rate reductions, the Company's future income tax liability was reduced by \$14.8 million as at June 30, 2006, and a future income tax recovery of \$14.8 million was recorded for the three and six month periods ended June 30, 2006.

During the three months ended June 30, 2006, the Company entered into an agreement with a financial institution to purchase annuities for all retirees in the Company's salaried employee defined benefit pension plans (see note 7). As a result of this transaction, the Company's future income tax liability was reduced by \$5.8 million as at June 30, 2006, and a future income tax recovery of \$5.8 million was recorded for the three and six month periods ended June 30, 2006.

3. Earnings per Share

	Three months ended		Six months ended	
	June 30, 2006	June 30, 2005	June 30, 2006	June 30, 2005
Net earnings (loss)	\$ 12.2	\$ (6.7)	\$ 15.1	\$ (9.1)
Basic weighted average number of common shares	77,516,784	77,168,284	77,506,046	77,079,076
Incremental common shares from potential exercise of options	75,545	127,272	75,852	147,127
Diluted weighted average number of common shares	77,592,329	77,295,556	77,581,898	77,226,203
Basic and diluted net earnings (loss) per common share	\$ 0.16	\$ (0.09)	\$ 0.19	\$ (0.12)

TIMBERWEST FOREST CORP.

Notes to Unaudited Interim Consolidated Financial Statements

For the three and six months ended June 30, 2006 and 2005

4. Property, Plant and Equipment

Property, plant and equipment at June 30, 2006, includes private timberlands with a carrying value of \$1,214.0 million. This amount includes a valuation increase adjustment of \$389.8 million recorded in the year ended December 31, 2000 resulting from the adoption of Section 3465 – *Income Taxes* of the CICA Handbook, which was mandatory for fiscal years ending on or after January 1, 2000.

5. Other Assets

	As at June 30, 2006	As at December 31, 2005
Deferred debt issue costs	\$ 1.2	\$ 1.4
Receivable on sale of property, plant and equipment	0.5	0.5
Other	1.4	1.7
Prepaid pension benefits (note 7)	–	8.3
	\$ 3.1	\$ 11.9

6. Revolving Credit Facilities

As at June 30, 2006, the Company had no borrowings on available credit facilities and had commitments of \$16.9 million relating to outstanding letters of credit, including \$16.3 million issued under its demand bank guarantee facility and \$0.6 million issued under its \$100.0 million long-term unsecured revolving facility.

7. Employee Future Benefits

	As at June 30, 2006	As at December 31, 2005
Pension benefits	\$ 7.7	\$ –
Non-pension post-retirement benefits	29.6	28.6
	\$ 37.3	\$ 28.6

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 second quarter of 2006, the Company entered into an agreement with a financial institution to purchase annuities for all retirees in the Company's salaried employee defined benefit pension plans. Effective April 15, 2006, \$89.7 million of pension obligations were transferred to the financial institution at a cost to the Company of \$1.1 million. In addition, the Company recorded a \$17.2 million non-cash pension expense in the second quarter of 2006 related to this transaction, representing the unamortized net actuarial loss associated with retiree pension obligations at the transaction date that would have otherwise been amortized over the expected life of the pension plan.

TIMBERWEST FOREST CORP.

Notes to Unaudited Interim Consolidated Financial Statements

For the three and six months ended June 30, 2006 and 2005

7. Employee Future Benefits (continued)

Summary information about the Company's defined benefit plans other than the multi-employer defined benefit plan, in aggregate, is as follows:

	As at June 30, 2006	As at December 31, 2005
Fair value of plan assets	\$ 7.5	\$ 97.4
Accrued benefit obligation	18.5	106.4
Excess of accrued benefit obligation over plan assets	(11.0)	(9.0)
Unamortized net actuarial loss	3.3	17.3
Net asset (accrued liability)	\$ (7.7)	\$ 8.3

For the three months ended June 30, 2006, the Company recorded an expense of \$17.9 million for pension benefit costs (2005 – \$0.7 million), including \$17.2 million related to the annuitization transaction, and made cash payments of \$1.7 million to fund current and future service costs (2005 – \$1.0 million), including \$1.1 million related to the annuitization transaction. For the six months ended June 30, 2006, the Company recorded an expense of \$18.2 million for pension benefit costs (2005 – \$1.1 million), including \$17.2 million related to the annuitization transaction completed in the second quarter, and made cash payments of \$2.7 million to fund current and future service costs (2005 – \$1.8 million), including \$1.1 million related to the annuitization transaction completed in the second quarter.

Subsequent to June 30, 2006, the Company entered into an agreement with a financial institution to purchase annuities for members of one of the Company's remaining small defined benefit pension plans. Effective July 14, 2006, approximately \$1.0 million of pension obligations and \$1.4 million of pension assets were transferred to the financial institution. As this pension plan was in a surplus position at the time of this transaction, there was no cost to the Company and no pension expense has been recorded in relation to this transaction.

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, 2006, the Company recorded an expense of \$2.0 million for non-pension benefit costs (2005 – \$0.9 million) and made cash payments of \$0.4 million to fund current benefit costs (2005 – \$0.6 million). For the six months ended June 30, 2006, the Company recorded an expense of \$3.0 million for non-pension benefit costs (2005 – \$1.8 million) and made cash payments of \$1.0 million to fund current benefit costs (2005 – \$1.1 million).

TIMBERWEST FOREST CORP.

Notes to Unaudited Interim Consolidated Financial Statements

For the three and six months ended June 30, 2006 and 2005

8. Stapled Units

	Number	Stapled Unit Components		Total
		Series A Subordinate Notes	Share Capital (consisting of common and preferred shares)	
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	357,846	3.2	1.0	4.2
Balance, June 30, 2005	77,264,863	\$ 693.7	\$ 188.8	\$ 882.5
Six months ended June 30, 2006:				
Balance, December 31, 2005	77,487,571	\$ 695.7	\$ 189.8	\$ 885.5
Issuance of Stapled Units on exercise of options	42,092	0.4	0.1	0.5
Balance, June 30, 2006	77,529,663	\$ 696.1	\$ 189.9	\$ 886.0

The Company issues equity by way of Stapled Units. Each Stapled Unit consists 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, 2006 and 2005

9. 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, 2006, no Stapled Unit options were granted (2005 – 6,000 Stapled Unit options were granted at an exercise price of \$14.98). For the six months ended June 30, 2006, 245,238 Stapled Unit options were granted at an average exercise price of \$13.94 (2005 – 348,998 Stapled Unit options were granted at an average exercise price of \$15.79).

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

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

The compensation cost for the 245,238 Stapled Unit options granted between January 1, 2006 and June 30, 2006 is \$226,000 (2005 – 348,998 Stapled Unit options were granted with a compensation cost of \$454,900). The compensation cost of Stapled Unit option awards is amortized against earnings over the three-year vesting period of the underlying options and an expense of \$73,000 and \$143,000 has been recognized in net earnings for the three and six month periods ended June 30, 2006, respectively, (2005 – \$104,000 and \$169,000, respectively,) for option awards made in fiscal 2003 through 2006, with a corresponding credit to contributed surplus.

Under the Company's Distribution Equivalent Plan, the Company awards Stapled Unit option holders an amount equal to actual distributions paid on the Company's Stapled Units. Awards granted under the Distribution Equivalent Plan vest under the same terms that apply to the corresponding options and can only be exercised at the time of exercise of the corresponding options. The Company applies the principles of the fair value-based method of accounting for stock-based compensation to awards granted under this plan. Awards are accrued on a basis equal to actual distributions paid on the Company's issued and outstanding Stapled Units and are charged to earnings as the underlying Stapled Unit options vest. During the three months ended June 30, 2006, \$0.3 million has been accrued for awards granted under this plan (2005 – \$0.3 million) and \$0.3 million has been amortized against earnings for the quarter (2005 – \$0.2 million). For the six months ended June 30, 2006, \$0.5 million has been accrued for awards granted under this plan (2005 – \$0.6 million) and \$0.5 million has been amortized against earnings for this period (2005 – \$0.5 million).

During the three months ended June 30, 2006, a total of 23,901 Stapled Unit options with an average exercise price of \$12.58 were exercised (2005 – 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). For the six months ended June 30, 2006, a total of 42,092 Stapled Unit options with an average exercise price of \$12.39 were exercised (2005 – 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).

10. Comparative Figures

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

TIMBERWEST FOREST CORP.

Supplemental Information

Unaudited

	Three months ended		Six months ended	
	June 30, 2006	June 30, 2005	June 30, 2006	June 30, 2005
Sales by Product <i>(in millions of dollars)</i>				
Log sales				
Domestic	\$ 34.4	\$ 32.3	\$ 69.8	\$ 69.4
Export – Asia	43.5	32.5	79.1	56.5
Export – US	16.2	15.3	30.8	26.8
Total log sales	94.1	80.1	179.7	152.7
Lumber	33.9	22.6	61.9	41.2
Wood chips and other	5.5	4.3	11.6	9.8
Real estate	12.1	0.6	18.7	2.5
	\$ 145.6	\$ 107.6	\$ 271.9	\$ 206.2
Sales Volume				
Logs (<i>thousand m³</i>)				
Domestic	430.2	436.4	897.3	923.4
Export – Asia	331.1	239.8	597.4	414.9
Export – US	176.3	166.4	332.1	298.0
	937.6	842.6	1,826.8	1,636.3
Lumber (<i>million fbm</i>)	51.0	41.1	98.5	76.1
Log Sales Mix (<i>thousand m³</i>)				
Fir	665.9	535.9	1,264.4	983.6
Hem-bal	127.6	166.7	254.5	366.3
Cedar	83.5	80.2	160.7	172.2
Other	60.6	59.8	147.2	114.2
	937.6	842.6	1,826.8	1,636.3
Production Volume				
Logs (<i>thousand m³</i>)				
Public tenures	209.4	253.5	420.8	308.8
Private timberlands	721.5	789.8	1,603.1	1,481.1
	930.9	1,043.3	2,023.9	1,789.9
Lumber (<i>million fbm</i>)	47.3	29.2	96.1	76.1
Earnings Before Interest, Taxes, Depreciation and Amortization (EBITDA)* <i>(in millions of dollars)</i>				
Net earnings (loss)	\$ 12.2	\$ (6.7)	\$ 15.1	\$ (9.1)
Add (deduct):				
Interest on Series A Subordinate Notes paid to unitholders	20.9	20.8	41.8	41.6
Interest on long-term debt	3.6	3.4	7.4	6.5
Interest on short-term debt	–	0.5	–	1.0
Income tax expense (recovery)	(21.5)	(0.9)	(24.0)	0.5
Depreciation, depletion and amortization	2.2	2.4	4.4	4.3
Amortization of deferred financing costs	0.1	0.2	0.3	0.4
EBITDA	\$ 17.5	\$ 19.7	\$ 45.0	\$ 45.2

* EBITDA does not have a standardized meaning prescribed by Canadian generally accepted accounting principles and may not be comparable to similar measures presented by other companies. Management believes that the presentation of this measure will enhance an investor's understanding of the Company's operating performance.

TIMBERWEST FOREST CORP.

About TimberWest

TimberWest Forest Corp. is uniquely positioned as the largest owner of private forest lands in western Canada. The Company's 334,000 hectares, providing a sustainable annual harvest of 2.5 million m³ of logs, have an approximate average annual growth rate of 8.0 m³ per hectare per year on the productive land base, are located on Vancouver Island and predominantly support the growth of Douglas fir forests, a premium species used for structural purposes. TimberWest runs fully-contracted harvesting operations. With approximately 70% of the Company's logging now being done in second-growth stands, TimberWest leads the industry in the harvest of second-growth timber. Third party auditors have certified that the management of the Company's private forest land conforms to the objectives and performance measures of the American Forest and Paper Association's Sustainable Forestry Initiative (SFI®). TimberWest also owns renewable Crown harvest rights to 0.7 million m³ of logs per year and operates a lumbermill located near Campbell River, BC. In addition, approximately 38,000 hectares of the Company's private forest lands have been identified as having greater value as real estate properties and will progressively be made available for higher uses over the next ten to fifteen years. The Company reviews its land base on a periodic basis to update the size of its portfolio of higher-use properties.

TimberWest Forest Corp.

Suite 2300, 1055 West Georgia Street
PO Box 11101
Vancouver, BC V6E 3P3
Telephone: 604-654-4600
Facsimile: 604-654-4571

Investor Relations Contact:
Bev Park
Vice-President, Finance and
Chief Financial Officer
Telephone: 604-654-4600
Facsimile: 604-654-4662
Email: invest@timberwest.com

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

