



3rd Quarter
INTERIM REPORT

For the three & nine months
ended September 30, 2004

maintaining our
FOCUS

GROWING GREATEST VALUE THROUGH OPERATIONS EXCELLENCE



TIMBERWEST FOREST CORP.

To Our Unitholders,

I am pleased to report that TimberWest has turned in another strong quarter, in what is turning out to be a very strong year.

The Company generated distributable cash of \$35.9 million or basic and diluted distributable cash of \$0.47 per weighted average Stapled Unit for the quarter ended September 30, 2004, compared to \$12.0 million or basic and diluted distributable cash of \$0.15 per weighted average Stapled Unit for Q3, 2003. This increase is attributable to higher operating earnings, reflecting both higher net sales and improved operating margins, and the receipt of \$14 million in proceeds or \$0.18 per Stapled Unit as settlement for the 1995 expropriation of timber harvesting rights on provincially owned lands.

On a year-to-date basis, TimberWest has generated distributable cash of \$107.1 million or basic and diluted distributable cash of \$1.40 per weighted average Stapled Unit compared to \$42.4 million or basic and diluted distributable cash of \$0.56 per weighted average Stapled Unit for the same period in 2003. This year-over-year increase is the combined result of improved operating margins from timberland operations, higher net sales and operating earnings from our sawmill; \$16.7 million in cash proceeds for the sale of Tree Farm Licence 46 received in Q2, 2004; a \$2.7 million restructuring charge taken in Q2, 2004 related to the business transformation initiative; capital expenditures in the first nine months of 2004 that were \$12.5 million lower than the same period in 2003; and the \$14.0 million expropriation receipt realized in Q3, 2004.

The improved operating earnings in both of our timberland and manufacturing divisions, a direct result of the successful pursuit of our Operations Excellence strategy, are noteworthy. Operating earnings were \$23.0 million for Q3, 2004 compared to \$12.0 million for Q3, 2003. On a year-to-date basis, operating earnings were \$79.4 million compared to \$52.9 million for the first three quarters of 2003. This represents a 46% margin improvement. We continue to take costs out of the system and improve the competitive position of the Company.

The Elk Falls lumbermill continues to be cash and earnings positive even after being assessed international prices for the logs it consumes. Improved spreads were obtained through higher realizations, increased chip pricing and improved recoveries. Production increases were largely attributed to recent capital improvements and our preventative maintenance program.

As we announced last quarter, TimberWest is moving to transform its business into a more focused land management company as a result of the new labour agreement announced last May. Some 50% of timber harvesting work is already done by independent contractors. TimberWest is moving to competitively bid the remainder of its road building and timber harvesting activities to stump to dump contractors. The Company has completed the first two phases of a three-phase bidding process and is now moving toward final negotiations with bidders. We view this change as a natural progression of our Operations Excellence strategy. It will align our business model with the rest of North America, further reduce costs and improve our flexibility to respond to market changes.

In the interim, our Timberland Operations division has implemented alternate shifts in three operating areas. The change is another outcome of the new Coast Master Agreement with the IWA, which provides for more cost-effective shifts to be introduced. TimberWest will realize savings through increased equipment utilization, reduced overtime and reduced transportation costs per productive hour worked. The continuous shifts that have been implemented vary depending on crew size, equipment, type of work and operation.

Also noteworthy this quarter, is an increase in the long-run sustainable yield on our private timberlands, from 2.3 million m³ to 2.5 million m³ on the basis of improvements in the underlying growth rates of the forest inventory due to yield increases from a range of silviculture practices. As such, the Company expects future harvests from its private timberlands to be at a rate of 2.5 million m³ per year, plus or minus 10% in any given year.

Regarding the softwood lumber dispute, the US is focused on the upcoming election and thus there have been no negotiations on this issue between the two countries. There has been good news on the legal front, however. In August, NAFTA's dispute panel reviewing US softwood lumber duties on Canada directed the United States to change its injury findings made by the International Trade Commission (ITC), saying they were not supported by the facts. The NAFTA panel found no threat of injury to domestic producers. It was the third such NAFTA decision on softwood lumber in as many years. In September, the International Trade Commission – by a five to one vote – agreed with the order of the US-Canada bi-national panel on softwood lumber from Canada, reversing its previous finding of threat of injury to the US industry. The Coalition for Fair Lumber Imports denounced the NAFTA ruling, saying it is unconstitutional for a bi-national panel to dictate to an independent US government agency a finding contrary to US law and called upon the US government to appeal through an Extraordinary Challenge Committee. The Coalition has stated that the ITC laid the groundwork for a strong case against the NAFTA Injury Panel's

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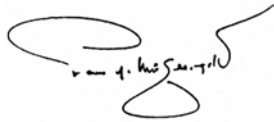
judgment and Order. The US Trade Commission has since confirmed that it will request the formation of an extraordinary challenge committee "to address deficiencies in the NAFTA panel decision."

Meanwhile, TimberWest is continuing with its own legal challenge, calling on the Federal Government to repeal its discriminatory private land log export restriction that imposes, only in BC, a "surplus test" on private forest land owners in the form of Notice 102.

Looking ahead, during the final quarter of the year we expect demand for logs to hold firm in Japan and the US. However, lumber markets in Japan are showing signs of oversupply with all supply regions having produced at high levels over the quarter, so there may be some softening on prices.

With our continued focus on Operations Excellence, we expect to deliver a very good year and with the Company in its strongest financial condition since its inception.

On behalf of the Board of Directors



Paul J. McElligott
President and Chief Executive Officer

Vancouver, British Columbia
October 19, 2004

TIMBERWEST FOREST CORP.

Management's Discussion and Analysis

For the three and nine months ended September 30, 2004 and 2003

Management's discussion and analysis supplements, but does not form part of, the unaudited interim consolidated financial statements of TimberWest Forest Corp. ("TimberWest" or "the Company") and the notes thereto for the third quarter of 2004. This discussion and analysis provides an overview of significant developments that have affected TimberWest's performance during the third quarter and year to date of 2004 relative to the third quarter and year to date of 2003, and that have affected the Company's financial position as at September 30, 2004, relative to December 31, 2003. Factors that could affect future operations are also discussed. These factors may be affected by known and unknown risks and uncertainties that may cause the actual future results of the Company to be materially different than those expressed or implied in this discussion. These risks and uncertainties are described herein and in the management's discussion and analysis contained in the Company's 2003 Annual Report.

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

This management's discussion and analysis has been prepared based on information available as at October 15, 2004. Additional information relating to TimberWest, including the Company's most recent Annual Information Form and other statutory reports, can be found on the System for Electronic Document Analysis and Retrieval (SEDAR) at <http://www.sedar.com>.

Distributable Cash

(in millions of dollars)	Three months ended September 30		Nine months ended September 30	
	2004	2003	2004	2003
Net earnings	\$ 25.9	\$ 6.3	\$ 64.7	\$ 25.5
Income tax benefit related to distributions	7.3	3.3	22.0	15.9
Earnings available for distribution	33.2	9.6	86.7	41.4
Future income tax recovery on earnings before extraordinary item	(5.2)	(1.4)	(6.1)	(0.5)
Future income tax expense on extraordinary item	5.0	-	5.0	-
Earnings available for distribution before provision for future income taxes	33.0	8.2	85.6	40.9
Add (deduct):				
Depreciation, depletion and amortization	2.5	2.5	8.6	8.4
Proceeds from sale of property, plant and equipment	2.7	3.0	21.3	6.9
Gain on sale of property, plant and equipment	(0.5)	(1.5)	(5.9)	(2.8)
Additions to property, plant and equipment	(2.5)	(2.0)	(4.5)	(17.0)
Other non-cash items	0.7	1.8	2.0	6.0
	2.9	3.8	21.5	1.5
Distributable cash	\$ 35.9	\$ 12.0	\$ 107.1	\$ 42.4
Consists of:				
Distributable cash before extraordinary item	\$ 21.9	\$ 12.0	\$ 93.1	\$ 42.4
Distributable cash from extraordinary item	14.0	-	14.0	-
	\$ 35.9	\$ 12.0	\$ 107.1	\$ 42.4

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Per Stapled Unit amounts:

<i>(in dollars)</i>	Three months ended September 30		Nine months ended September 30	
	2004	2003	2004	2003
<i>Basic and diluted earnings available for distribution before provision for future income taxes per weighted average Stapled Unit</i>	\$ 0.43	\$ 0.11	\$ 1.12	\$ 0.54
<i>Basic and diluted distributable cash per weighted average Stapled Unit:</i>				
– before extraordinary item	\$ 0.29	\$ 0.15	\$ 1.22	\$ 0.56
– from extraordinary item	0.18	-	0.18	-
	\$ 0.47	\$ 0.15	\$ 1.40	\$ 0.56
<i>Cash distributions paid per Stapled Unit</i>	\$ 0.27	\$ 0.27	\$ 0.81	\$ 0.81

Distributable cash includes consolidated earnings before income taxes less cash income taxes, plus depreciation, depletion and amortization, plus proceeds from the sale of property, plant and equipment net of their gain (loss) on sale, less additions to property, plant and equipment and, from time to time, adjustments for other items deemed appropriate by the Board of Directors.

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

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

	2004	2003	2002	2001	2000	1999	1998
Distributable Cash <i>(in millions of dollars)</i>							
First	\$ 27.7	\$ 25.7	\$ 21.2	\$ 25.9	\$ 28.4	\$ 24.5	\$ 13.2
Second	43.5	4.7	10.6	26.7	28.2	25.1	24.0
Third	35.9	12.0	34.1	14.1	14.1	14.0	11.5
Fourth		9.0	24.2	16.8	18.5	19.7	19.6
	\$ 107.1	\$ 51.4	\$ 90.1	\$ 83.5	\$ 89.2	\$ 83.3	\$ 68.3
Distributable Cash per Stapled Unit <i>(in dollars)</i>							
First	\$ 0.36	\$ 0.34	\$ 0.30	\$ 0.40	\$ 0.41	\$ 0.36	\$ 0.19
Second	0.57	0.06	0.14	0.41	0.42	0.36	0.34
Third	0.47	0.15	0.45	0.22	0.22	0.20	0.17
Fourth		0.12	0.32	0.26	0.29	0.28	0.28
	\$ 1.40	\$ 0.67	\$ 1.21	\$ 1.29	\$ 1.34	\$ 1.20	\$ 0.98

Quarterly Financial Highlights

TimberWest generated distributable cash of \$35.9 million or basic and diluted distributable cash of \$0.47 per weighted average Stapled Unit for the quarter ended September 30, 2004, compared to distributable cash of \$12.0 million or basic and diluted distributable cash of \$0.15 per weighted average Stapled Unit for the same period in 2003. The increase in distributable cash from the prior year can be attributed to higher operating earnings in the third quarter of 2004, reflecting both higher net sales and improved operating margins, and the receipt of \$14.0 million or \$0.18 per Stapled Unit as settlement for the 1995 expropriation of timber harvesting rights. Earnings available for distribution for the third quarter of 2004, before provision for future income taxes, were \$33.0 million or \$0.43 per basic and diluted weighted average Stapled Unit compared to \$8.2 million or \$0.11 per basic and

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diluted weighted average Stapled Unit for the same quarter in 2003. Net sales for the third quarter of 2004 were \$113.9 million compared to net sales of \$100.3 million reported for the third quarter of 2003. Operating earnings were \$23.0 million for the third quarter of 2004 compared to \$12.0 million for the same period in 2003, representing a 68% improvement in the operating margin year over year. Earnings before interest, taxes, depreciation and amortization (EBITDA)¹ for the quarter ended September 30, 2004, before the expropriation settlement proceeds which have been accounted for as an extraordinary item, were \$25.6 million or \$0.33 per basic and diluted weighted average Stapled Unit compared to \$14.8 million or \$0.19 per basic and diluted weighted average Stapled Unit for the same period in 2003. Earnings for the quarter ended September 30, 2004, before the extraordinary item, were \$16.9 million or basic and diluted earnings before extraordinary item of \$0.05 per weighted average common share, compared to earnings of \$6.3 million or a basic and diluted loss of \$0.14 per weighted average common share for the same period in 2003. Net earnings for the quarter ended September 30, 2004, were \$25.9 million or basic and diluted net earnings of \$0.16 per weighted average common share, compared to net earnings of \$6.3 million or a basic and diluted net loss of \$0.14 per weighted average common share for the same period in 2003.

On September 24, 2004, the Company received \$14.0 million from the Province of British Columbia as settlement for the 1995 expropriation of timber harvesting rights in the Walbran Valley and Hitchie Creek areas for park creation purposes under the *Park Amendment Act, 1995* (British Columbia). The \$14.0 million proceeds have been recorded as an extraordinary item in the consolidated statements of earnings, net of \$5.0 million in income taxes affected at statutory tax rates. There will be no cash taxes payable on this settlement. Additional information on this settlement is provided under "Extraordinary Item – Expropriation Settlement Proceeds" in this management's discussion and analysis.

Year to Date Financial Highlights

TimberWest generated distributable cash of \$107.1 million or basic and diluted distributable cash of \$1.40 per weighted average Stapled Unit for the nine months ended September 30, 2004, compared to distributable cash of \$42.4 million or basic and diluted distributable cash of \$0.56 per weighted average Stapled Unit for the same period in 2003. The increase in distributable cash from the prior year can be attributed to several factors, including: higher operating earnings for the first nine months of 2004, reflecting both higher net sales and improved operating margins compared to the same period in 2003; increased proceeds from the sale of property, plant and equipment, including \$16.7 million in cash proceeds from the sale of Tree Farm Licence 46 (TFL 46) in the second quarter of 2004; a \$2.7 million restructuring charge taken in the second quarter of 2004 related to the business transformation initiative; capital expenditures in the first nine months of 2004 that were \$12.5 million lower relative to the same period in 2003; and the receipt of \$14.0 million or \$0.18 per Stapled Unit as settlement for the 1995 expropriation of timber harvesting rights. Earnings available for distribution, before provision for future income taxes, for the first nine months of 2004 were \$85.6 million or \$1.12 per basic and diluted weighted average Stapled Unit compared to \$40.9 million or \$0.54 per basic and diluted weighted average Stapled Unit for the comparable period in 2003. Net sales for the first nine months of 2004 were \$346.9 million compared to net sales of \$336.2 million reported for the first nine months of 2003. Operating earnings were \$79.4 million for the first nine months of 2004 compared to \$52.9 million for the same period in 2003, representing a 46% margin improvement compared to the first nine months of 2003. EBITDA for the nine months ended September 30, 2004, before the expropriation settlement proceeds which have been accounted for as an extraordinary item, were \$92.6 million or \$1.21 per basic and diluted weighted average Stapled Unit compared to \$61.6 million or \$0.81 per basic and diluted weighted average Stapled Unit for the same period in 2003. Earnings for the nine months ended September 30, 2004, before the extraordinary item, were \$55.7 million or basic and diluted earnings before extraordinary item of \$0.21 per weighted average common share, compared to earnings of \$25.5 million or a basic and diluted loss of \$0.27 per weighted average common share for the same period in 2003. Net earnings for the nine months ended September 30, 2004, were \$64.7 million or basic and diluted net earnings of \$0.32 per weighted average common share, compared to net earnings of \$25.5 million or a basic and diluted net loss of \$0.27 per weighted average common share for the same period in 2003.

As noted previously, the Company reached a settlement with the Province of British Columbia for compensation relating to the 1995 expropriation of timber harvesting rights in the Walbran Valley and Hitchie Creek areas. The \$14.0 million in proceeds received have been recorded as an extraordinary item in the consolidated statements of

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



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earnings, net of \$5.0 million in income taxes affected at statutory tax rates. There will be no cash taxes payable on this settlement. Additional information on this settlement is provided under “Extraordinary Item – Expropriation Settlement Proceeds” in this management’s discussion and analysis.

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

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

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

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

Extraordinary Item – Expropriation Settlement Proceeds

On September 24, 2004, the Company received \$14.0 million from the Province of British Columbia as settlement for the 1995 expropriation of timber harvesting rights in the Walbran Valley and Hitchie Creek areas for park creation purposes under the *Park Amendment Act, 1995* (British Columbia). The \$14.0 million proceeds from this settlement have been recorded as an extraordinary item in the consolidated statements of earnings, net of \$5.0 million in income taxes affected at statutory tax rates. As the Company has non-capital losses carried forward from previous taxation years, there will be no cash income taxes payable on the proceeds from this settlement. The future income tax expense on earnings before the extraordinary item for both the three and nine month periods ended September 30, 2004, have been reduced by \$5.0 million to recognize the benefit of the losses utilized and fully offsets the tax expense charged to the extraordinary item.

Increase in Long Run Sustainable Yield

On October 19, 2004, the Company announced an increase in the long run sustainable yield on its private timberlands, from 2.3 million m³ to 2.5 million m³ on the basis of improvements in the underlying growth rates of the forest inventory due to yield increases from a range of silviculture practices. As such, the Company expects future harvests from its private timberlands to be at a rate of 2.5 million m³ per year, plus or minus 10% in any given year. The computation of the Company’s new long run sustainable yield will be audited by the Company’s external SFI® auditor, KPMG Performance Registrar Inc., in the first quarter of 2005.

Business Transformation

On June 24, 2004, the Company announced a plan to transform its business model through a restructuring of the Company’s log harvesting operations and a move to contract out all logging activities. At the time of the announcement, 50 percent of the Company’s log harvesting was performed by contractors. Under the transformation plan, the Company will contract out the remainder of its logging activities to unionized contractors on a competitive-bid basis.

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

The Company’s timberland operations employees will be affected by this change. The Company’s 430 hourly employees will continue to be represented by the IWA and most, if not all, will be hired by contractors who will recognize their seniority from the Company when this process is complete. Roles and responsibilities of certain salaried employees will also change. Some 20 salaried positions are to be eliminated. Salaried employees not

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retiring who do not have a position going forward will receive severance and re-employment assistance from the Company. Certain facilities will also be closed. Operating earnings for the nine month period ended September 30, 2004, include a provision of \$2.7 million for costs relating to this restructuring. As the components of the business transformation process are identified and implemented, additional restructuring costs may come to light and will be charged to earnings at that time.

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

Sale of TFL 46

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

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

Cash Distribution

On October 19, 2004, TimberWest announced a distribution of \$0.269 per Stapled Unit, payable January 15, 2005, to unitholders of record on January 1, 2005. From inception to September 30, 2004, the Company has generated distributable cash of \$578.7 million while, including the October 15, 2004 distribution of \$20.6 million, the Company has paid out \$546.1 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 September 30, 2004, were \$81.3 million, up 7% from log sales of \$76.2 million for the quarter ended September 30, 2003. This increase reflects the combined effect of a 2% increase in the volume of logs sold, with 804.0 thousand m³ sold in the third quarter of 2004 compared with 786.7 thousand m³ sold in the comparative period of 2003, and a 4% increase in overall log sales realizations, averaging \$101 per m³ for the third quarter of 2004, up from the \$97 per m³ for the comparative period in 2003. Sales to domestic market customers were up 6% over the comparative quarter in 2003, reflecting an 8% increase in log sales volume, up to 510.5 thousand m³, and a 2% decrease in realizations, down to \$83 per m³. Export sales for the third quarter of 2004 were up 7% over the comparative period in 2003, reflecting the net effect of a 7% decrease in log sales volume to 293.5 thousand m³, and a 15% increase in average realizations to \$133 per m³. Improved realizations for the third quarter reflect higher average sort prices over the comparative period in 2003, particularly for fir and hemlock, despite less higher-value fir in the sales mix for the third quarter of 2004.

The operating margin from timberland operations for the third quarter of 2004 averaged 30% of log sales, compared to 23% of log sales for the third quarter of 2003. A continued focus on cost reduction resulted in a 7% decrease in production costs to \$68 per m³ for the third quarter of 2004, compared to \$73 per m³ for the comparative period in 2003. Notable production cost reductions were achieved in the areas of transportation, road building costs and ground-based yarding systems. Indirect costs were higher for the quarter due to higher fire protection costs.

Log sales for the nine months ended September 30, 2004, were \$263.8 million, down 2% from log sales of \$270.3 million for the comparative period in 2003. This decrease is primarily due to a 3% decrease in the volume of logs sold in the first nine months of 2004 compared to the first nine months of 2003, offset in part by a 1% increase in overall log sales realizations over the comparative period in 2003. Sales to domestic market customers were up 4% over the comparative period in 2003, reflecting an 8% increase in log sales volume to 1,666.9 thousand m³,

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offset by a 3% decrease in realizations, down to \$86 per m³. Export sales for the first nine months of 2004 were down 9% over the comparative period in 2003, reflecting an 18% decrease in log sales volume to 874.8 thousand m³, offset by an 11% increase in average realizations to \$138 per m³. Currency remained a factor in comparing the first nine months of 2004 with the first nine months of 2003 as the Canadian dollar was 7% stronger during 2004 relative to the comparative period in 2003. Earlier in the year, these currency effects had largely been mitigated by improvement in end-use sort pricing, however, during the third quarter of 2004 virtually none of the change in the exchange rate was passed through to export markets in the form of higher US dollar prices.

The timberland operations' operating margin for the first nine months of 2004 averaged 34% of log sales, compared to 26% of log sales for the first nine months of 2003. As with the third quarter of 2004, a continued focus on cost reduction contributed to a 12% decrease in production costs to \$64 per m³ for the first nine months of 2004, compared to \$73 per m³ for the comparative period in 2003. These results reflect the effect of lower transportation, yarding, road building and stumpage charges, as well as lower average indirect costs due to a 12% increase in production over the comparative period in 2003.

Lumber sales for the quarter ended September 30, 2004, of \$25.8 million were 74% greater than sales of \$14.8 million for the quarter ended September 30, 2003. This improvement reflects strong demand during the quarter relative to the prior year period, and the combined effect of improved average sales realizations for the quarter, rising 36% to \$554 per mfbm from \$406 per mfbm for the comparative period in 2003, and a 28% increase in the volume of lumber sold, rising to 46.6 million board feet for the third quarter of 2004 from 36.5 million board feet for the third quarter of 2003. Production at the lumbermill was up 193% over the comparative quarter in 2003 to 48.4 million board feet, reflecting very low production in the third quarter of 2003 due to market-related curtailments, and the benefits realized in the current year from the addition of a third shift and capital improvements undertaken in 2003.

Lumber sales for the nine months ended September 30, 2004, of \$66.9 million were 45% greater than sales of \$46.1 million for the comparative period in 2003. Again, this improvement reflects strong demand in 2004 relative to 2003 as evidenced by a 25% increase in average lumber sales realizations, rising to \$568 per mfbm from \$456 per mfbm for the comparative period in 2003, and a 16% increase in the volume of lumber sold, rising to 117.8 million board feet for the first half of 2004 from 101.1 million board feet for the first nine months of 2003. Year to date, production at the lumbermill was up 44% over the comparative period in 2003 to 131.6 million board feet.

Wood chip sales for both the three and nine month periods ended September 30, 2004, of \$3.4 million and \$9.4 million, respectively, were ahead of sales for the comparative periods in 2003, primarily due to increased chip volumes available for sale as a result of the increased production at the Company's lumbermill facility.

Real estate activity for the third quarter of 2004 generated revenues of \$2.1 million compared to revenues of \$3.4 million for the third quarter of 2003. Year to date, 2004 real estate sales generated revenues of \$3.2 million, less than the \$6.6 million generated in the same period of 2003. The current year result is low compared to prior years, however, this is due to the nature and timing of the current year's real estate sales program.

Financial Position

Current assets increased \$26.8 million to \$96.9 million at September 30, 2004, up from \$70.1 million as at December 31, 2003. This increase can be attributed to an increase in cash and cash equivalents of \$7.4 million, an increase in accounts receivable of \$8.3 million and an overall increase in inventories of \$10.5 million during the first nine months of 2004, with log inventories increasing \$5.8 million to \$46.8 million and lumber inventory increasing \$4.9 million to \$8.0 million. The \$7.4 million in cash and cash equivalents at the end of the third quarter of 2004 arose due to the receipt of \$14.0 million in late September 2004 from the Province of British Columbia as settlement for the 1995 expropriation of timber harvesting rights (for further information on this transaction, see "Extraordinary Item – Expropriation Settlement Proceeds" in this management's discussion and analysis). The maturity dates of bankers' acceptances outstanding on the Company's revolving credit facilities were such that they could not be settled until after the end of the third quarter of 2004. \$5.0 million of the excess cash was invested in a short-term guaranteed investment certificate over this interim period and was applied to reduce borrowings on revolving credit facilities in early October 2004. Labour-related work stoppages on timberland operations during November and December 2003 and market-related curtailments at the lumbermill during December 2003 resulted in reduced production and lower sales activity during the latter part of the fourth quarter of 2003, contributing to accounts receivable and inventory balances being considerably lower than typical for fiscal year end. Increased production and sales during the third quarter of 2004 relative to the fourth quarter of 2003 have resulted in accounts receivable and inventory balances being restored to more normal levels.

Property, plant and equipment of \$1,337.9 million as at September 30, 2004, was \$18.6 million less than at December 31, 2003, primarily reflecting the completion of the sale of TFL 46 during the second quarter of 2004 for

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a sale price of \$17.9 million. Other factors contributing to the variance in this balance include the year to date provision for depreciation, depletion and amortization of \$7.7 million, plus the sale of other property, plant and equipment in the first nine months of the year for proceeds of \$4.6 million, partially offset by \$4.5 million in additions to property, plant and equipment during the first nine months of 2004.

Other assets were \$14.1 million at September 30, 2004, comparable to the balance of \$14.3 million at December 31, 2003. Other assets are comprised primarily of prepaid pension benefits and deferred debt issue costs.

Current liabilities at the end of the third quarter of 2004 were \$89.4 million, down \$20.6 million from \$110.0 million as at December 31, 2003. Accounts payable and accrued liabilities increased \$21.3 million during the first nine months of 2004, to \$50.8 million at September 30, 2004. Similar to accounts receivable and inventory balances, accounts payable and accrued liabilities were at less than normal levels at December 31, 2003, due to production-related curtailments late in the fourth quarter of 2003 and lower stumpage fee accruals due to reduced harvests on Crown tenures during the fourth quarter of 2003. Increased production in the first nine months of 2004 has resulted in accounts payable and accrued liabilities increasing to more typical levels as at September 30, 2004. The distribution payable at the end of the third quarter of 2004 of \$20.6 million is up slightly from the distribution payable at December 31, 2003, reflecting a consistent per unit distribution and an increase in the number of Stapled Units outstanding at the end of the quarter due to the exercise of Stapled Unit options during the first nine months of 2004.

On March 2, 2004, the Company completed and received a renewal of short-term financing from a Canadian bank consisting of an unsecured demand bank guarantee facility in the amount of \$16.0 million and an unsecured 364-day committed revolving facility in the amount of \$40.0 million, both due on March 1, 2005. Under the 364-day facility, funds are available to the Company in both Canadian and US dollars by way of adjusted prime rate based loans, Canadian dollar bankers' acceptances and letters of credit or guarantee. On May 26, 2004, the Company completed and received a renewal of short-term financing from a second Canadian bank. The renewed financing consists of an unsecured 364-day committed revolving facility in the amount of \$40.0 million that is due on May 25, 2005. Under this 364-day facility, funds are available to the Company by way of Canadian dollar prime rate based loans, bankers' acceptances, letters of credit or guarantee and US dollar LIBOR. As at September 30, 2004, the Company had borrowings of \$18.0 million on its two \$40.0 million unsecured 364-day revolving facilities, a decrease of \$42.0 million from borrowings of \$60.0 million at December 31, 2003.

As at September 30, 2004, long-term credit facilities available to the Company consisted of an unsecured revolving credit facility for \$125.0 million due on September 30, 2006. There were no borrowings on this facility at September 30, 2004 or at December 31, 2003. Long-term liabilities as at September 30, 2004, included \$195.0 million aggregate principal amount of 7.0% unsecured senior debentures due October 1, 2007, a silviculture liability of \$4.0 million, a \$26.7 million liability relating to non-pension post retirement benefits and a future income tax liability of \$229.5 million. These liabilities have not changed materially from balances reported as at December 31, 2003.

During the quarter ended September 30, 2004, options to purchase 96,855 Stapled Units were exercised for proceeds of \$1.0 million and 10,173 Stapled Unit options were cancelled. During the nine month period ended September 30, 2004, 313,220 Stapled Unit options were granted, options to purchase 326,305 Stapled Units were exercised for proceeds of \$3.8 million, and 10,173 Stapled Unit options were cancelled. As at October 15, 2004, the Company had 1,495,475 granted and outstanding Stapled Unit option awards and 76,572,427 issued and outstanding Stapled Units.

Cash Flow and Liquidity

Net cash generated from operations before changes in non-cash working capital for the three months ended September 30, 2004, was \$21.9 million or \$0.29 per weighted average Stapled Unit compared to \$9.2 million or \$0.12 per weighted average Stapled Unit for the corresponding quarter in 2003. Year to date, net cash generated from operations before changes in non-cash working capital was \$75.2 million or \$0.98 per weighted average Stapled Unit compared to \$46.8 million or \$0.61 per weighted average Stapled Unit for the comparative period in 2003. During the third quarter of 2004, non-cash working capital decreased by \$2.5 million compared to a \$20.2 million decrease reported for the same period in 2003. The decrease for the third quarter of 2004 reflects a slight decrease in accounts receivable, inventories and accounts payable and accrued liabilities balances as at September 30, 2004, relative to June 30, 2004. Year to date non-cash working capital decreased by \$1.9 million compared to a \$5.2 million decrease for the same period in 2003. The decrease in the current year reflects the net effect of increases in all working capital components at September 30, 2004, compared to December 31, 2003, with the increase in accounts payables and accrued liabilities being greater than the increase in accounts

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receivable and inventory. These increases were due to increased production and sales activity discussed previously.

Net cash used in financing activities during the third quarter of 2004 was \$30.8 million compared to \$31.2 million used in financing activities in the comparative period of 2003. In the third quarter of 2004 the Company made a \$20.6 million distribution to unitholders, the same amount paid out in the third quarter of 2003. During the three months ended September 30, 2004, the Company issued 96,855 Stapled Units for net proceeds of \$1.0 million on the exercise of Stapled Unit options; no Stapled Unit options were exercised in the comparative period of 2003. In the third quarter of 2004, \$11.2 million in cash generated from operations was used to repay amounts owing on revolving credit facilities. In the third quarter of 2003, the Company completed a public offering of \$65.0 million aggregate principal amount of 7.0% debentures and applied the net proceeds from this public offering as part of the \$75.7 million repayment on its credit facilities during the third quarter of 2003. Net cash used in financing activities during the first nine months of 2004 was \$99.9 million, an increase from the \$45.4 million used in financing activities during the comparative period in 2003. In the first nine months of 2004, the Company made distributions of \$61.7 million to unitholders compared to distributions of \$61.6 million in the first nine months of 2003. During the nine months ended September 30, 2004, the Company issued 326,305 Stapled Units for net proceeds of \$3.8 million on the exercise of Stapled Unit options, compared to \$0.5 million received on the exercise of options for 53,334 Stapled Units in the comparative period of 2003. In the first nine months of 2004, the Company utilized cash from operations and proceeds from the sale of property, plant and equipment to repay \$42.0 million owing on its revolving credit facilities. In the first nine months of 2003, the Company drew \$57.1 million on available credit facilities and completed a public offering of \$65.0 million aggregate principal amount of 7.0% debentures, and utilized these funds to retire the Company's 6.5% debentures for \$106.5 million and to finance capital expenditures of \$17.0 million made in the first nine months of the year.

Net cash provided by investing activities during the third quarter of 2004 was \$13.8 million compared to net cash provided by investing activities of \$1.8 million for the same quarter of 2003. This variance primarily relates to the receipt of \$14.0 million expropriation settlement proceeds in the quarter, as well as lower proceeds from the sale of property, plant and equipment and higher capital expenditures in the third quarter of 2004 relative to the comparative period in 2003. For the nine months ended September 30, 2004, net cash provided by investing activities was \$30.2 million compared to net cash used in investing activities of \$7.6 million for the comparative period in 2003. Current year to date investing cash flows reflect the expropriation settlement proceeds of \$14.0 million and significantly greater proceeds from the sale of property, plant and equipment, including \$16.2 million cash proceeds of the \$16.7 million net proceeds received from the sale of TFL 46. The comparative figures for 2003 reflect greater capital expenditures relative to the same period in 2004, including year to date capital expenditures of \$17.0 million comprised of \$3.3 million to complete the North Island log sort and significant costs associated with the purchase of new dry kilns and other improvements undertaken at the Elk Falls lumbermill. Additions to property, plant and equipment in the first nine months of 2004 were lower at \$4.5 million and were comprised primarily of capital improvements at the Elk Falls lumbermill and road building costs.

As at September 30, 2004, TimberWest's total debt² outstanding was \$213.0 million compared to total debt outstanding of \$255.0 million as at December 31, 2003. The Company's consolidated debt-to-total capitalization ratio² as at September 30, 2004, was 19:81, compared to 23:77 as at December 31, 2003. Total debt facilities available to the Company as at September 30, 2004, were \$416.0 million, comprised of \$16.0 million available under the demand bank guarantee facility due March 1, 2005, \$40.0 million available under the 364-day revolving facility due March 1, 2005, \$40.0 million available under the 364-day revolving facility due May 25, 2005, \$125.0 million available under the revolving credit facility maturing on September 30, 2006, and \$195.0 million of 7.0% debentures maturing on October 1, 2007.

² Total debt and the debt-to-total capitalization ratio are measures that do not have a standardized meaning prescribed by GAAP and may not be comparable to similar measures presented by other companies. Management believes that the presentation of these measures will enhance an investor's understanding of the Company's financial resources and capital structure.

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Quarterly Financial Information

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

(in millions of dollars,
except per common
share and per Stapled
Unit amounts)

	2002		2003				2004		
	Q4	Q1	Q2	Q3	Q4	Q1	Q2	Q3	
Net sales	\$ 124.9	\$ 126.6	\$ 109.3	\$ 100.3	\$ 92.3	\$ 101.6	\$ 131.4	\$ 113.9	
Operating earnings	\$ 28.3	\$ 30.5	\$ 10.4	\$ 12.0	\$ 5.8	\$ 28.0	\$ 28.4	\$ 23.0	
Net earnings (loss) before extraordinary item	\$ 16.9	\$ 17.7	\$ 1.5	\$ 6.3	\$ (0.7)	\$ 17.1	\$ 21.7	\$ 16.9	
Extraordinary item, net of applicable income taxes	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ 9.0	
Net earnings (loss)	\$ 16.9	\$ 17.7	\$ 1.5	\$ 6.3	\$ (0.7)	\$ 17.1	\$ 21.7	\$ 25.9	
Earnings available for distribution	\$ 26.1	\$ 25.4	\$ 6.4	\$ 9.6	\$ 0.8	\$ 24.4	\$ 29.1	\$ 33.2	
Earnings available for distribution before provision for future income taxes	\$ 23.6	\$ 26.3	\$ 6.4	\$ 8.2	\$ 1.3	\$ 23.6	\$ 29.0	\$ 33.0	
Distributable cash	\$ 24.2	\$ 25.7	\$ 4.7	\$ 12.0	\$ 9.0	\$ 27.7	\$ 43.5	\$ 35.9	
Distributions paid	\$ 20.6	\$ 20.5	\$ 20.5	\$ 20.6	\$ 20.5	\$ 20.5	\$ 20.6	\$ 20.6	
<i>\$ per common share³</i>									
Basic and diluted net earnings (loss) before extraordinary item	\$ 0.07	\$ 0.06	\$ (0.19)	\$ (0.14)	\$ (0.26)	\$ 0.05	\$ 0.11	\$ 0.05	
Extraordinary item	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ 0.11	
Basic and diluted net earnings (loss) after extraordinary item	\$ 0.07	\$ 0.06	\$ (0.19)	\$ (0.14)	\$ (0.26)	\$ 0.05	\$ 0.11	\$ 0.16	
<i>\$ per Stapled Unit³</i>									
Basic and diluted earnings available for distribution	\$ 0.34	\$ 0.33	\$ 0.08	\$ 0.13	\$ 0.01	\$ 0.32	\$ 0.38	\$ 0.43	
Earnings available for distribution before provision for future income taxes									
- basic	\$ 0.31	\$ 0.35	\$ 0.08	\$ 0.11	\$ 0.02	\$ 0.31	\$ 0.38	\$ 0.43	
- diluted	\$ 0.31	\$ 0.34	\$ 0.08	\$ 0.11	\$ 0.02	\$ 0.31	\$ 0.38	\$ 0.43	
Basic and diluted distributable cash	\$ 0.32	\$ 0.34	\$ 0.06	\$ 0.15	\$ 0.12	\$ 0.36	\$ 0.57	\$ 0.47	
Distributions paid	\$ 0.27	\$ 0.27	\$ 0.27	\$ 0.27	\$ 0.27	\$ 0.27	\$ 0.27	\$ 0.27	

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

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Accounting Policy Change

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

TimberWest's asset retirement obligations of \$5.6 million at September 30, 2004, relate to silviculture liabilities accrued for future reforestation costs. Revisions to this liability could occur due to changes in estimated costs, timing of expenditures or possible new regulations related to reforestation, but would not be expected to be material.

Future Accounting Standard Change

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

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

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

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

Given that the number of shares required to retire the Subordinate Note component is not fixed, the revision to Section 3860 will require that the Company reclassify the Series A Subordinate Note component of the Stapled Unit from equity to liabilities. Had the revision to Section 3860 been implemented by the Company at the end of the third quarter of 2004, the reclassification of the Subordinate Note component of the Stapled Unit from equity to liabilities at September 30, 2004, would have been \$687.5 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 is currently classified as equity on the Company's financial statements, interest payments on Stapled Units are currently charged directly to retained earnings, on an after-tax basis, as a distribution similar to dividends on common shares. The revision to Section 3860 will require distributions on Stapled Units to be reported, on a pre-tax basis, as an interest expense on the statement of operations. This revision also requires the tax benefit provided by the distributions to be reported as a component of the income tax provision on the statement of operations. Distributions on Stapled Units for the third quarter of 2004 were \$20.6 million and the tax benefit recognized thereon was \$7.3 million. Year to date, distributions on Stapled units were \$61.8 million and the tax benefit recognized thereon was \$22.0 million. Had the revision to Section 3860 been implemented by the



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Company at the end of the third quarter of 2004, a net charge to earnings of \$13.3 million and \$39.8 million would have been required for each of the three and nine month periods ended September 30, 2004, respectively.

Pension Valuation

The triennial actuarial valuation of the Company's pension obligations as at December 31, 2003, was completed during the first quarter of 2004. The valuation identified a going-concern deficit of \$3.9 million and a solvency deficit of \$5.1 million for the defined benefit segment of the Company's pension benefit plans. Based on the results of the valuation, commencing in 2004, the Company is required to fund annual current service costs of approximately \$1.4 million, including \$1.1 million for required contributions under the defined contribution segment and \$0.3 million for required contributions under the defined benefit segment. In addition, the Company is required to pay \$0.8 million in 2004 to fund the \$5.1 million solvency deficit in the defined benefit segment. The incremental cash contribution related to pension expense that will be deducted from distributable cash for fiscal 2004 is approximately \$2.2 million.

Outlook

In Japan, demand for logs and lumber is expected to hold firm as economic reports indicate wood based housing starts should continue at a consistent pace. Delivered prices for logs from all major supply regions continue at levels higher than last year.

However, Japanese sawmillers cutting imported logs are having a tough time with higher log prices, higher freight rates and a weaker yen. So far they have absorbed the higher costs as they have not been able to pass them on to customers. Whether these sawmillers are successful in driving down log prices will depend on the availability of supply. With the US demand expected to remain strong, supply is likely to remain tight in Japan in the near term. At this time it appears that second growth fir prices, supported by the strength of the US market, should continue to be stable in the near term with hemlock prices declining slightly under supply pressure. Lumber markets in Japan are showing signs of oversupply with all supply regions having produced at high levels over the third quarter, a situation causing lumber prices to back up.

High levels of demand together with high lumber prices should continue to keep log prices stable on the US West Coast. Housing starts are expected to remain strong through the balance of the year and into the early part of 2005. However, economic reports are beginning to call for a slowdown in housing starts sometime in 2005 as the effect of higher interest rates begins to be felt. While second growth fir continues to be stable in this market, cedar has come under some pressure as demand has waned. In addition, as the US dollar continues to weaken against the Canadian dollar, Canadian exporters into this market will have a tough time maintaining realizations at current levels.

The Company is continuing with its Operations Excellence program and expects to eventually have all timber harvesting and road building contracted out. We believe this initiative will continue to improve TimberWest's competitiveness. The Company has implemented all of the provisions of the new collective agreement with the IWA and these too are improving our competitiveness.

We expect to finish the year with distributable cash generated, even excluding one-time items, in excess of our distribution requirements and with the Company in its strongest financial condition since its inception.

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



TIMBERWEST FOREST CORP.

Notice

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

TIMBERWEST FOREST CORP.

Consolidated Statements of Operations

(in millions of dollars)
Unaudited

	Three months ended September 30		Nine months ended September 30	
	2004	2003	2004	2003
Net sales	\$ 113.9	\$ 100.3	\$ 346.9	\$ 336.2
Operating costs and expenses:				
Cost of products sold	84.7	83.6	249.5	265.4
Depreciation, depletion and amortization	2.3	2.1	7.7	7.3
Selling, administrative and other	3.9	2.6	10.3	10.6
	90.9	88.3	267.5	283.3
Operating earnings	23.0	12.0	79.4	52.9
Interest expense	3.9	3.9	12.0	11.7
Amortization of deferred financing costs	0.2	0.4	0.9	1.1
Other income (note 11)	(0.3)	(0.7)	(5.5)	(1.4)
	3.8	3.6	7.4	11.4
Earnings before income taxes and extraordinary item	19.2	8.4	72.0	41.5
Income tax expense (note 3)	2.3	2.1	16.3	16.0
Earnings before extraordinary item	16.9	6.3	55.7	25.5
Extraordinary item – expropriation settlement proceeds, net of applicable income taxes (note 4)	9.0	-	9.0	-
Net earnings	\$ 25.9	\$ 6.3	\$ 64.7	\$ 25.5
<i>Basic and diluted earnings (loss) per common share before extraordinary item (note 5)</i>	\$ 0.05	\$ (0.14)	\$ 0.21	\$ (0.27)
<i>Extraordinary item, net of applicable income taxes</i>	0.11	-	0.11	-
<i>Basic and diluted net earnings (loss) per common share (note 5)</i>	\$ 0.16	\$ (0.14)	\$ 0.32	\$ (0.27)

See accompanying notes to unaudited interim consolidated financial statements.

TIMBERWEST FOREST CORP.

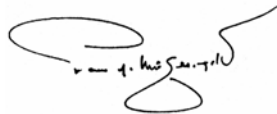
Consolidated Balance Sheets

(in millions of dollars)

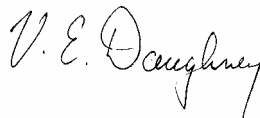
	As at September 30, 2004 <i>Unaudited</i>	As at December 31, 2003
Assets		
Current assets:		
Cash and cash equivalents (note 6)	\$ 7.4	\$ -
Accounts receivable	23.7	15.4
Inventories	56.2	45.7
Prepaid expenses and other current assets	7.0	6.4
Future income taxes	2.6	2.6
	96.9	70.1
Property, plant and equipment, net (note 7)	1,337.9	1,356.5
Other assets	14.1	14.3
	\$ 1,448.9	\$ 1,440.9
Liabilities and Unitholders' Equity		
Current liabilities:		
Revolving credit facilities (note 8)	\$ 18.0	\$ 60.0
Accounts payable and accrued liabilities	50.8	29.5
Distribution payable	20.6	20.5
	89.4	110.0
Debentures	195.0	195.0
Long-term silviculture liability	4.0	4.6
Non-pension post-retirement benefits	26.7	25.3
Future income taxes	229.5	230.5
	544.6	565.4
Unitholders' equity:		
Stapled Units, consisting of Series A Subordinate Notes, preferred shares and common shares	874.4	870.6
Contributed surplus	0.3	0.2
Retained earnings	29.6	4.7
	904.3	875.5
	\$ 1,448.9	\$ 1,440.9

See accompanying notes to unaudited interim consolidated financial statements.

On behalf of the Board of Directors:



Paul J. McElligott
Director



V. Edward Daughney
Director

TIMBERWEST FOREST CORP.

Consolidated Statements of Cash Flows

(in millions of dollars)
Unaudited

	Three months ended September 30		Nine months ended September 30	
	2004	2003	2004	2003
Cash provided by (used in):				
Operating activities:				
Earnings before income taxes and extraordinary item	\$ 19.2	\$ 8.4	\$ 72.0	\$ 41.5
Cash income taxes (note 3)	(0.2)	(0.2)	(0.4)	(0.6)
	19.0	8.2	71.6	40.9
Items not involving cash:				
Depreciation, depletion and amortization	2.5	2.5	8.6	8.4
Gain on sale of property, plant and equipment	(0.5)	(1.5)	(5.9)	(2.8)
Other non-cash items	0.9	-	0.9	0.3
	21.9	9.2	75.2	46.8
Changes in non-cash working capital:				
Accounts receivable	1.1	4.1	(8.3)	(1.9)
Inventories	4.5	17.6	(10.5)	12.1
Prepaid expenses and other working capital	(0.8)	(0.6)	(0.6)	(0.4)
Accounts payable and accrued liabilities	(2.3)	(0.9)	21.3	(4.6)
	24.4	29.4	77.1	52.0
Financing activities:				
Distributions paid to unitholders	(20.6)	(20.6)	(61.7)	(61.6)
Issuance of Stapled Units on exercise of options	1.0	-	3.8	0.5
Revolving credit facilities	(11.2)	(75.7)	(42.0)	57.1
Issuance of 7.0% debentures	-	65.8	-	65.8
Redemption of 6.5% debentures	-	-	-	(106.5)
Deferred debt issue costs	-	(0.7)	-	(0.7)
	(30.8)	(31.2)	(99.9)	(45.4)
Investing activities:				
Proceeds from sale of property, plant and equipment	2.7	3.0	21.3	6.9
Additions to property, plant and equipment	(2.5)	(2.0)	(4.5)	(17.0)
Other assets	(0.4)	0.8	(0.6)	2.5
Expropriation settlement proceeds (extraordinary item (note 4))	14.0	-	14.0	-
	13.8	1.8	30.2	(7.6)
Increase (decrease) in cash and cash equivalents				
	7.4	-	7.4	(1.0)
Cash and cash equivalents, beginning of period				
	-	-	-	1.0
Cash and cash equivalents, end of period				
	\$ 7.4	\$ -	\$ 7.4	\$ -
Supplemental information:				
Interest paid	\$ 0.5	\$ 1.6	\$ 8.6	\$ 11.9
Income taxes paid	\$ 0.2	\$ 0.1	\$ 0.6	\$ 0.6

See accompanying notes to unaudited interim consolidated financial statements.

TIMBERWEST FOREST CORP.

Consolidated Statements of Unitholders' Equity

(in millions of dollars)
Unaudited

	Stapled Units		Contributed surplus	Retained earnings	Total unitholders' equity
	Number	Amount			
For the nine months ended September 30, 2003:					
Balance, December 31, 2002	76,192,788	\$ 870.1	\$ 0.1	\$ 44.6	\$ 914.8
Issuance of Stapled Units on exercise of options	53,334	0.5	-		0.5
Net earnings	-	-	-	25.5	25.5
Interest on Series A Subordinate Notes	-	-	-	(61.6)	(61.6)
Income tax benefit thereon (note 3)	-	-	-	15.9	15.9
Balance, September 30, 2003	76,246,122	\$ 870.6	\$ 0.1	\$ 24.4	\$ 895.1
For the nine months ended September 30, 2004:					
Balance, December 31, 2003	76,246,122	\$ 870.6	\$ 0.2	\$ 4.7	\$ 875.5
Issuance of Stapled Units on exercise of options	326,305	3.8	-		3.8
Stapled Unit option awards	-	-	0.1		0.1
Net earnings	-	-	-	64.7	64.7
Interest on Series A Subordinate Notes	-	-	-	(61.8)	(61.8)
Income tax benefit thereon (note 3)	-	-	-	22.0	22.0
Balance, September 30, 2004	76,572,427	\$ 874.4	\$ 0.3	\$ 29.6	\$ 904.3

See accompanying notes to unaudited interim consolidated financial statements.

TIMBERWEST FOREST CORP.

Notes to Unaudited Interim Consolidated Financial Statements

For the three and nine months ended September 30, 2004 and 2003

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

1. Significant Accounting Policies

The accompanying unaudited interim consolidated financial statements include the accounts of TimberWest Forest Corp. and its subsidiaries ("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, 2003, except for a change in accounting for asset retirement obligations as described in note 2.

2. Accounting Policy Change

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

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

3. Income Taxes

	Three months ended September 30		Nine months ended September 30	
	2004	2003	2004	2003
Current income tax expense				
Large corporation tax	\$ 0.2	\$ 0.2	\$ 0.4	\$ 0.6
Income tax benefit on interest on Series A Subordinate Notes charged directly to distributions	7.3	3.3	22.0	15.9
	7.5	3.5	22.4	16.5
Future income tax recovery	(5.2)	(1.4)	(6.1)	(0.5)
	\$ 2.3	\$ 2.1	\$ 16.3	\$ 16.0

The provision for future income taxes for the three and nine months ended September 30, 2004, both include a \$5.0 million recovery to recognize the benefit of losses utilized to offset the income tax expense that would otherwise be applicable to expropriation settlement proceeds of \$14.0 million received in the third quarter of 2004 (see note 4).

TIMBERWEST FOREST CORP.

Notes to Unaudited Interim Consolidated Financial Statements

For the three and nine months ended September 30, 2004 and 2003

4. Extraordinary Item – Expropriation Settlement Proceeds

On September 24, 2004, the Company received \$14.0 million from the Province of British Columbia as settlement for the 1995 expropriation of timber harvesting rights in the Walbran Valley and Hitchie Creek areas for park creation purposes under the *Park Amendment Act, 1995* (British Columbia). The \$14.0 million proceeds from this settlement have been recorded as an extraordinary item in the consolidated statements of earnings, net of \$5.0 million in income taxes affected at statutory tax rates. As the Company has non-capital losses carried forward from previous taxation years, income taxes will not be paid on the proceeds from this settlement. The future income tax expense on earnings before the extraordinary item for the three and nine months ended September 30, 2004, have both been reduced by \$5.0 million to recognize the benefit of the losses utilized and fully offsets the tax expense charged to the extraordinary item.

5. Earnings per Share

	Three months ended September 30		Nine months ended September 30	
	2004	2003	2004	2003
Earnings before extraordinary item	\$ 16.9	\$ 6.3	\$ 55.7	\$ 25.5
Less: Distributions on Series A Subordinate Notes	(20.6)	(20.5)	(61.8)	(61.6)
Tax benefit thereon	7.3	3.3	22.0	15.9
	(13.3)	(17.2)	(39.8)	(45.7)
Earnings (loss) attributable to common shares before extraordinary item	3.6	(10.9)	15.9	(20.2)
Extraordinary item, net of income taxes (note 4)	9.0	-	9.0	-
Earnings (loss) attributable to common shares	\$ 12.6	\$ (10.9)	\$ 24.9	\$ (20.2)
Basic weighted average number of common shares	76,535,214	76,246,122	76,427,642	76,230,564
Incremental common shares from potential exercise of options	166,776	65,827	116,355	74,597
Diluted weighted average number of common shares	76,701,990	76,311,949	76,543,997	76,305,161
Basic and diluted earnings (loss) before extraordinary item per common share	\$ 0.05	\$ (0.14)	\$ 0.21	\$ (0.27)
Extraordinary item, net of income taxes	0.11	-	0.11	-
Basic and diluted net earnings (loss) per common share	\$ 0.16	\$ (0.14)	\$ 0.32	\$ (0.27)

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

6. Cash and Cash Equivalents

	As at September 30, 2004	As at December 31, 2003
Cash	\$ 2.4	\$ -
Short-term investment	5.0	-
Cash and cash equivalents	\$ 7.4	\$ -

TIMBERWEST FOREST CORP.

Notes to Unaudited Interim Consolidated Financial Statements

For the three and nine months ended September 30, 2004 and 2003

7. Property, Plant and Equipment

Property, plant and equipment at September 30, 2004, include \$1,218.4 million carrying value for private timberlands. This amount includes a valuation increase adjustment of \$390.8 million recorded in the year ended December 31, 2000, resulting from the adoption of Section 3465 – *Income Taxes* of the CICA Handbook, which was mandatory for fiscal years ending on or after January 1, 2000.

8. Revolving Credit Facilities

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

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

As at September 30, 2004, the Company had borrowings of \$18.0 million on the Company's two \$40.0 million unsecured 364-day revolving facilities. As at September 30, 2004, there were no borrowings on the Company's \$125.0 million unsecured revolving credit facility.

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. The triennial actuarial valuation of the Company's pension obligations as at December 31, 2003, was completed during the first quarter of 2004. The valuation identified a going-concern deficit of \$3.9 million and a solvency deficit of \$5.1 million for the defined benefit segment of the Company's pension benefit plans. Based on the results of the valuation, commencing in 2004, the Company is required to fund annual current service costs of approximately \$1.4 million, including \$1.1 million for required contributions under the defined contribution segment and \$0.3 million for required contributions under the defined benefit segment. In addition, the Company is required to pay \$0.8 million in 2004 to fund the \$5.1 million solvency deficit in the defined benefit segment.

For the three months ended September 30, 2004, the Company recorded an expense of \$0.7 million for pension benefit costs (2003 – \$0.9 million) and made cash payments of \$0.1 million to fund current service costs (2003 – nil). For the nine months ended September 30, 2004, the Company recorded an expense of \$2.3 million for pension benefit costs (2003 – \$2.7 million) and made cash payments of \$0.5 million to fund current service costs (2003 – nil).

The Company also provides non-pension benefits consisting of group life insurance and medical benefits to eligible retired employees, which the Company funds on an as-incurred basis. For the three months ended September 30, 2004, the Company recorded an expense of \$0.9 million for non-pension benefit costs (2003 – \$0.7 million) and made cash payments of \$0.4 million to fund current and future benefit costs (2003 – \$0.4 million). For the nine months ended September 30, 2004, the Company recorded an expense of \$2.7 million for non-pension benefit costs (2003 – \$2.1 million) and made cash payments of \$1.3 million to fund current and future benefit costs (2003 – \$1.3 million).

TIMBERWEST FOREST CORP.

Notes to Unaudited Interim Consolidated Financial Statements For the three and nine months ended September 30, 2004 and 2003

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

The Company has applied the fair value method of accounting for Stapled Unit option grants awarded on or after January 1, 2003. The compensation cost for the 313,220 Stapled Unit options granted between January 1, 2004 and September 30, 2004 is \$269,000 (2003 – 267,047 Stapled Unit options were granted with a compensation cost of \$285,000). The compensation cost is amortized against earnings over the three-year vesting period of the underlying options and charges of \$55,000 and \$134,000 were recognized in net earnings for the three and nine month periods ended September 30, 2004, respectively, (2003 – \$24,000 and \$63,000, respectively,) with a corresponding credit to contributed surplus. The fair value of each option granted was estimated on the date of grant using the Black-Scholes option pricing model using the following weighted average assumptions:

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

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

Under the Company's Distribution Equivalent Plan, the Company awards Stapled Unit option holders an amount equal to actual distributions paid on the Company's Stapled Units. Awards granted under the Distribution Equivalent Plan vest under the same terms that apply to the corresponding options and can only be exercised at the time of exercise of the corresponding options. The Company applies the principles of the fair value based method of accounting for stock-based compensation to awards granted under this plan. Awards are accrued on a basis equal to actual distributions paid on the Company's issued and outstanding Stapled Units and are charged to earnings as the underlying Stapled Unit options vest. For the three months ended September 30, 2004, \$0.3 million has been accrued for awards granted under this plan (2003 – \$0.3 million) and \$0.3 million has been amortized against earnings for the quarter (2003 – \$0.3 million). For the nine months ended September 30, 2004, \$1.0 million has been accrued for awards granted under this plan (2003 – \$0.8 million) and \$1.0 million has been amortized against earnings (2003 – \$0.8 million).

During the three months ended September 30, 2004, a total of 96,855 Stapled Unit options with an average exercise price of \$10.51 were exercised and 10,173 Stapled Unit options with an average exercise price of \$12.08 were cancelled (2003 – no Stapled Unit options were exercised and 1,366 Stapled Unit options with an exercise price of \$12.84 were cancelled). For the nine months ended September 30, 2004, a total of 326,305 Stapled Unit options with an average exercise price of \$11.63 were exercised and 10,173 Stapled Unit options with an average exercise price of \$12.08 were cancelled (2003 – 53,334 Stapled Unit options with an exercise price of \$8.91 were exercised and 9,367 Stapled Unit options with an average exercise price of \$12.94 were cancelled).



TIMBERWEST FOREST CORP.

Notes to Unaudited Interim Consolidated Financial Statements

For the three and nine months ended September 30, 2004 and 2003

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

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

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

12. Business Transformation

On June 24, 2004, the Company announced a plan to transform its business model through a restructuring of the Company's log harvesting operations and a move to contract out all logging activities. At the time of the announcement, 50 percent of the Company's log harvesting was performed by contractors. Under the transformation plan, the Company will eventually contract out the remainder of its logging activities to unionized contractors on a competitive-bid basis.

Operating earnings for the nine month period ended September 30, 2004, reflect a provision of \$2.7 million in cost of products sold for costs relating to this restructuring.

TIMBERWEST FOREST CORP.

Supplemental Information

Unaudited

Three months ended
September 30

Nine months ended
September 30

2004

2003

2004

2003

Sales by Product

(in millions of dollars)

	2004	2003	2004	2003
Log sales				
Domestic	\$ 42.4	\$ 39.8	\$ 143.5	\$ 137.4
Export – Asia	24.3	22.0	82.2	84.1
Export – US	14.6	14.4	38.1	48.8
Total log sales	81.3	76.2	263.8	270.3
Lumber	25.8	14.8	66.9	46.1
Wood chips and other	4.7	5.9	13.0	13.2
Real estate	2.1	3.4	3.2	6.6
	\$ 113.9	\$ 100.3	\$ 346.9	\$ 336.2

Sales Volume

Logs (thousand m³)

Domestic	510.5	470.3	1,666.9	1,548.2
Export – Asia	154.5	148.1	514.1	531.8
Export – US	139.0	168.3	360.7	542.1
Total log sales	804.0	786.7	2,541.7	2,622.1

Lumber (million fbm)

46.6 36.5 117.8 101.1

Log Sales Mix (thousand m³)

Fir	369.9	446.6	1,446.8	1,512.3
Hembal	264.5	228.1	602.9	660.2
Cedar	76.5	61.5	256.1	270.8
Other	93.1	50.5	235.9	178.8
	804.0	786.7	2,541.7	2,622.1

Production Volume

Logs (thousand m³)

Public tenures	201.8	55.5	743.3	542.6
Private timberlands	559.0	613.9	1,953.6	1,871.7
Total log production	760.8	669.4	2,696.9	2,414.3

Lumber (million fbm)

48.4 16.5 131.6 91.5

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

(in millions of dollars)

Net earnings	\$ 25.9	\$ 6.3	\$ 64.7	\$ 25.5
Add (deduct):				
Interest expense	3.9	3.9	12.0	11.7
Income tax expense	2.3	2.1	16.3	16.0
Depreciation, depletion and amortization	2.3	2.1	7.7	7.3
Amortization of deferred financing costs	0.2	0.4	0.9	1.1
Extraordinary item, net of income taxes	(9.0)	-	(9.0)	-
EBITDA	\$ 25.6	\$ 14.8	\$ 92.6	\$ 61.6

* 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 investors 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, which can vary in the range of 2.3 million m³ to 2.7 million m³, are located on Vancouver Island and predominantly support the growth of Douglas fir forests, a premium species used for structural purposes. Third party auditors have certified that the management of the Company's private forest land conforms to the objectives and performance measures of the American Forest and Paper Association's Sustainable Forestry Initiative (SFI®). The computation of the Company's new long-run sustainable yield will be validated by the Company's external SFI® auditor, KPMG Performance Registrar Inc., in the second quarter of 2005. TimberWest also owns renewable Crown harvest rights to 0.8 million m³ of logs per year and operates a lumbermill located near Campbell River, BC. In addition, approximately 6,000 hectares of the Company's private forest lands have been identified as having greater value as real estate properties and are progressively being made available for higher uses.

TimberWest Forest Corp.

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

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

