

For immediate release: October 30, 2007

## TIMBERWEST ANNOUNCES 2007 THIRD QUARTER RESULTS

### Company announces quarterly distribution of \$0.269 per Stapled Unit payable on January 15, 2008.

Vancouver (BC) – TimberWest lost distributable cash<sup>1</sup> of \$5.6 million or \$0.07 per stapled unit for the third quarter of 2007. This compares to \$9.3 million of distributable cash generated for the third quarter of 2006 or \$0.12 per unit.

The Company's operating performance during the quarter was affected by:

- the United Steelworkers ("USW") strike which curtailed more than two months of production,
- lower than anticipated real estate sales,
- weak log markets in the US and Japan that kept prices low, and
- the continued appreciation of the Canadian dollar against its US counterpart.

Of the \$14.9 million reduction in quarter over quarter distributable cash, approximately 60% is strike-related.

"US log and lumber markets remained difficult during the quarter with low housing starts, high inventories of unsold homes, and on-going home price deflation," said President and CEO Paul McElligott. "Many of our US log customers took downtime and we expect this market to remain weak for some time."

In Japan, log and lumber markets remained oversupplied for the quarter as US log sellers increased exports to this market. With the US dollar depreciating against all major currencies, including the yen, this has improved their competitive position in Japan against Canadian producers. This condition is also likely to persist until the US housing market turns around. In addition, the oversupply was exacerbated by delays in housing starts related to revisions to Japan's *Building Standards Act* and the fact that Russian exporters shipped significant volumes to Japan earlier in the year in advance of their export tax increase in July. As well, coastal BC sawmillers were in a strike situation for most of the quarter.

A stronger Canadian dollar combined with the foregoing elements to lower log sales realizations for TimberWest from \$100/m<sup>3</sup> in the third quarter of 2006 to \$95/m<sup>3</sup> in the third quarter of 2007. The decline would have been more pronounced were it not for the fact that export sales, where premiums are realized over domestic prices, represented 60% of sales volume this quarter compared to 46% of sales volume in the equivalent prior year period.

"Weak markets and a strong Canadian dollar underscore the BC Coast's vulnerability to increasingly competitive global markets and make it imperative for us to continue with efforts to lower costs and improve productivity," said McElligott. "While this is a challenging time for our organization, our contractors and their employees, it is necessary to find ways to increase efficiencies as the Coast's market share continues to shrink and its competitive position in producing both log and lumber products diminishes. If the Coastal industry does not reverse this trend, it will be difficult to stabilize the work force."

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<sup>1</sup> Distributable cash, earnings available for distribution and EBITDA are measures that do not have a standardized meaning prescribed by Canadian generally accepted accounting principles (GAAP) and may not be comparable to similar measures presented by other companies. 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 distributable cash and earnings available for distribution is provided in the Summary of Financial Results and a reconciliation of net earnings as determined in accordance with GAAP and EBITDA is provided in the Supplemental Information included in this press release.



## TIMBERWEST FOREST CORP.

The United Steelworkers (USW) and Forest Industrial Relations (FIR), an employer bargaining association representing some 31 companies on the coast of BC, settled on a new collective labour agreement in mid October. It has a three year term and provides for wage increases of 7% over that term. TimberWest's harvesting operations are performed by independent contractors and those of them who are unionized are either members of FIR or have "me-too" agreements patterned on the FIR settlement. They now have a new labour agreement with the USW. Operations resumed on TimberWest lands on October 22, 2007, despite the fact that TimberWest itself has 29 foresters and engineers represented by the USW still on strike.

"As communicated in my previous unitholder letter, TimberWest tabled a final offer and asked the BC Labour Relations Board ("LRB") to conduct a secret ballot vote of its 29 foresters and engineers when it reached the point of impasse in its negotiations with the USW," said McElligott. "One of the principal features of that final offer was acquiring the right to subdivide contractor operations into smaller work units operated by unionized crews. Regrettably, the LRB denied that application as well as an amended application designed to accommodate representational concerns raised by the LRB." In a precedent-setting decision, the LRB ruled that former TimberWest logging employees now working for contractors have a sufficient and continuing interest in TimberWest's operation that qualifies them as employees in the bargaining unit affected by the final offer even though they have no seniority or recall rights with TimberWest. The company will appeal this decision. In the interim, we will pursue other avenues to achieve our goal of subdivision. This remains a key requirement for the renewal of our collective agreement. We believe that a larger pool of smaller contractors will allow us to be more competitive. While we are working on this issue and on strike, our trees continue to grow.

Our Elk Falls sawmill generated negative earnings and cash for the quarter. Lumber sales revenue was down 65% over the equivalent prior year period. Volumes and realizations were down due to the USW labour disruption, strong Canadian dollar and market conditions in Japan. The sale process for the sawmill continues and when bargaining resumes with the CEP for a new collective labour agreement at the mill, we will continue to seek major cost reductions.

During the quarter, we generated \$1.0 million from several small real estate sales. "Our long term strategic plan for real estate will be completed by calendar year-end with the assistance of EDAW, a large international real estate consulting firm," added McElligott. "We are also expecting to appoint some additional senior managers to our real estate group before year-end to work with John Hendry, our recently appointed VP, Real Estate."

During the quarter, TimberWest successfully refinanced its debt in the bank market and despite tough credit conditions was able to reduce the Company's cost of borrowing.

Subsequent to the quarter, TimberWest appointed John Mitchell to the position of Chief Forester and Director, Sustainability and Environment. John will report directly to the CEO and his appointment strengthens our commitment to our core values in these areas. John was our Operations Manager, North Island, and has over 20 years of experience in the industry. We are very pleased that John has agreed to take on this important role in our Company.



## TIMBERWEST FOREST CORP.

### Outlook

While we expect continued weakness in the US and Japanese log and lumber markets and strength in the Canadian dollar for some time, the following work in our favour:

- We ended the quarter with only \$7.3 million more debt on the balance sheet than at the end of the second quarter. With \$228.0 million of debt we are 20% levered and in strong financial condition,
- We are also expecting to close the Leech Creek watershed sale to the Capital Regional District on Vancouver Island during the fourth quarter for almost \$65 million. At this point the electorate in Victoria have voted in favour of this acquisition and as such we are moving towards closing near the end of December, and
- We have considerable real estate being marketed through both conventional listings and an auction format. While we are uncertain whether these transactions will all close during the fourth quarter, these proceeds will strengthen our financial position.

Our strong financial condition has allowed us to pay our required distributions to unitholders in 2007 despite this year's labour disruption, weak log and lumber markets, and strong Canadian dollar.

Despite the short term challenges, we remain optimistic about the longer term outlook for log sales realizations. Changing demographics are expected to support strong future levels of housing demand in North America. Supply contraction is also anticipated to accompany these stronger demand levels. Finally, we are optimistic about the mid and long term real estate potential of our higher and better use lands.

# TIMBERWEST FOREST CORP.

## Distributable Cash

<i>(in millions of dollars)</i>	Three months ended September 30		Nine months ended September 30	
	2007	2006	2007	2006
Net earnings (loss)	\$ (28.1)	\$ (12.8)	\$ (31.7)	\$ 2.3
Interest on Series A Subordinate Notes owned by unitholders	20.9	20.9	62.7	62.7
Earnings (loss) available for distribution	(7.2)	8.1	31.0	65.0
Future income tax recovery	(0.8)	(0.8)	(3.4)	(25.0)
Earnings (loss) available for distribution before provision for future income taxes	(8.0)	7.3	27.6	40.0
Add (deduct):				
Depreciation, depletion and amortization	2.1	2.1	7.0	6.8
Proceeds from sale of property, plant and equipment	1.1	2.2	6.8	19.1
Gain on sale of property, plant and equipment	(0.8)	(1.3)	(6.2)	(4.0)
Additions to property, plant and equipment	(0.9)	(2.2)	(2.2)	(3.7)
Other non-cash items	0.9	1.2	1.9	18.1
	2.4	2.0	7.3	36.3
Distributable cash	\$ (5.6)	\$ 9.3	\$ 34.9	\$ 76.3
Per Stapled Unit amounts: <i>(in dollars)</i>				
<i>Basic earnings (loss) available for distribution before provision for future income taxes per weighted average Stapled Unit</i>	\$ (0.10)	\$ 0.09	\$ 0.36	\$ 0.52
<i>Diluted earnings (loss) available for distribution before provision for future income taxes per weighted average Stapled Unit</i>	\$ (0.10)	\$ 0.09	\$ 0.35	\$ 0.52
<i>Basic and diluted distributable cash per weighted average Stapled Unit</i>	\$ (0.07)	\$ 0.12	\$ 0.45	\$ 0.98
<i>Cash distributions paid per Stapled Unit</i>	\$ 0.27	\$ 0.27	\$ 0.81	\$ 0.81

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 September 30		Nine months ended September 30	
	2007	2006	2007	2006
Cash flow from operations before changes in working capital	\$ (26.7)	\$ (11.2)	\$ (33.0)	\$ (1.7)
Add (deduct):				
Interest on Series A Subordinate Notes owned by unitholders	20.9	20.9	62.7	62.7
Proceeds from sale of property, plant and equipment	1.1	2.2	6.8	19.1
Additions to property, plant and equipment	(0.9)	(2.2)	(2.2)	(3.7)
Other non-cash items	—	(0.4)	0.6	(0.1)
	21.1	20.5	67.9	78.0
Distributable cash	\$ (5.6)	\$ 9.3	\$ 34.9	\$ 76.3

# TIMBERWEST FOREST CORP.

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. Reconciliations of net earnings (loss) and cash flow from operations before changes in working capital, as determined in accordance with GAAP, and earnings available for distribution and distributable cash are provided in the preceding tables.

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

	2007	2006	2005	2004	2003	2002
<b>Distributable Cash</b>						
<i>(in millions of dollars)</i>						
First quarter	\$ 26.9	\$ 31.5	\$ 23.9	\$ 27.7	\$ 25.7	\$ 21.2
Second quarter	13.6	35.5	15.4	43.5	4.7	10.6
Third quarter	(5.6)	9.3	(1.7)	35.9	12.0	34.1
Fourth quarter		27.5	29.7	18.1	9.0	24.2
	<b>\$ 34.9</b>	<b>\$ 103.8</b>	<b>\$ 67.3</b>	<b>\$ 125.2</b>	<b>\$ 51.4</b>	<b>\$ 90.1</b>
<b>Distributable Cash per Stapled Unit<sup>2</sup></b>						
<i>(in dollars)</i>						
First quarter	\$ 0.35	\$ 0.41	\$ 0.31	\$ 0.36	\$ 0.34	\$ 0.30
Second quarter	0.17	0.46	0.20	0.57	0.06	0.14
Third quarter	(0.07)	0.12	(0.02)	0.47	0.15	0.45
Fourth quarter		0.35	0.38	0.24	0.12	0.32
	<b>\$ 0.45</b>	<b>\$ 1.34</b>	<b>\$ 0.87</b>	<b>\$ 1.64</b>	<b>\$ 0.67</b>	<b>\$ 1.21</b>

<sup>2</sup> 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.

# TIMBERWEST FOREST CORP.

## Financial Highlights

<i>(in millions of dollars)</i>	Three months ended September 30		Nine months ended September 30	
	2007	2006	2007	2006
Sales	\$ 73.1	\$ 96.8	\$ 289.4	\$ 367.5
Operating earnings (loss)	(3.7)	11.3	33.3	69.2
Operating earnings (loss) - % of sales	(5%)	12%	12%	19%
Earnings (loss) before interest, taxes, depreciation and amortization <sup>3</sup>	(1.9)	13.0	45.9	58.0
Earnings (loss) before interest, taxes, depreciation and amortization per basic and diluted weighted average Stapled Unit	(0.02)	0.17	0.59	0.75
Income tax recovery	0.9	0.8	3.5	24.8
Net earnings (loss)	(28.1)	(12.8)	(31.7)	2.3
Earnings (loss) per common share:				
Basic	(0.36)	(0.17)	(0.41)	0.03
Diluted	(0.36)	(0.16)	(0.41)	0.03
Distributable cash	\$ (5.6)	\$ 9.3	\$ 34.9	\$ 76.3

Overall sales revenues for the three months ended September 30, 2007 and on a year-to-date basis, were down compared to the third quarter of 2006 due to decreases in log and lumber sales volumes and average sales realizations. In addition, there were no significant real estate sales during the quarter and year-to-date compared to the prior year periods. Operating earnings as a percentage of sales decreased compared to the third quarter of 2006 as a result of lower sales volumes, lower average sales realizations and higher operating costs for both logs and lumber.

The Canadian dollar has continued to strengthen this year, which has negatively affected sales realizations. During the quarter, the dollar appreciated 7%, and appreciated 15% against the US dollar since the beginning of the year.

## Highlights and Significant Transactions

### ***Adoption of New Accounting Policies – Financial Instruments***

During the first quarter, the Company adopted new accounting policies issued by the Canadian Institute of Chartered Accountants (“CICA”) and changed its policy of accounting for financial instruments. Prior to January 1, 2007, TimberWest recognized financial liabilities at carrying value. Effective January 1, 2007, the Company measures its debentures and Series A Subordinate Notes owned by unitholders at amortized cost using the effective interest method. The effective interest method establishes the rate which equates the estimated future cash flows with the net carrying amount of the financial liability. The embedded derivative arising from the option to extend the Series A Subordinate Notes for a further 10 year period is measured at fair value. TimberWest adopted the new accounting policies on a retroactive basis but prior years have not been restated.

The adoption of new accounting policies for financial instruments has not resulted in any significant changes to TimberWest’s financial statements.

<sup>3</sup> Earnings (loss) before interest, taxes, depreciation and amortization 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 Earnings (loss) before interest, taxes, depreciation and amortization is provided in the supplemental information appended to this interim report.



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## ***Refinancing of Credit Facilities***

During the third quarter, the Company finalized arrangements for new credit facilities. On September 25, 2007, the Company completed and received two credit facilities pursuant to unsecured revolving facilities underwritten by a syndicate of Canadian chartered banks. The first facility, Tranche A, is long-term financing in the amount of \$200.0 million, due on September 24, 2012. The second facility, Tranche B, is short term financing in the amount of \$100.0 million, due on September 24, 2008. Under both facilities funds are available to the Company in both Canadian and US dollars by way of adjusted prime rate-based loans, bankers' acceptances, LIBOR loans and letters of credit or guarantee. At any time prior to maturity of the facilities and provided no event of default has occurred, the Company may request an increase to the credit facility apportioned proportionally between Tranche A and Tranche B up to the aggregate amount of \$350.0 million.

On completion of this financing, the Company's long-term financing in the amount of \$65.0 million pursuant to an unsecured revolving facility underwritten by a Canadian chartered bank, due on July 7, 2010 and the Company's long-term financing in the amount of \$100.0 million pursuant to an unsecured revolving facility underwritten by a syndicate of Canadian chartered banks, due on July 28, 2010, were cancelled.

## ***Cash Distribution***

On October 30, 2007, TimberWest announced a distribution of \$0.269 per Stapled Unit, payable January 15, 2008, to unitholders of record on January 1, 2008. From inception to September 30, 2007, the Company has generated distributable cash of \$802.8 million while, including the October 15, 2007 distribution of \$20.9 million, the Company has paid out \$796.4 million to unitholders.

Due to the seasonal and cyclical nature of TimberWest's business, cash flows may fluctuate from quarter to quarter and from year to year. One of the objectives of TimberWest's cash distribution policy is to make even distributions to unitholders, which may differ from actual cash generated during the period.

## ***Subsequent Events***

### ***Redemption of Debentures***

Subsequent to September 30, 2007, the Company used the Tranche A credit facility to pay out the maturity of the \$195.0 million of 7.0% debentures on October 1, 2007.

### ***Additional Financing***

On October 19, 2007, the Company requested and received additional financing in the amount of \$25.0 million to the credit facility, apportioned proportionally between Tranche A and Tranche B, pursuant to the unsecured revolving facility underwritten by a syndicate of Canadian chartered banks.

## ***Quarterly Conference Call***

TimberWest will hold a conference call at 8:00am PDT (11:00am EDT) on Wednesday, October 31, 2007, to discuss results of the third quarter. To access the conference call, listeners should dial 1-800-718-4679. For those unable to participate in the live call, a recording of the call will be available until November 14, 2007, and can be accessed at 1-800-558-5253 using code 21350739. The conference call will also be broadcast live over the internet via TimberWest's website home page at <http://www.timberwest.com>. The webcast will be archived and available for an additional 90 days.

# TIMBERWEST FOREST CORP.

## Operating Highlights

Timberland Operations:	Three months ended September 30		Nine months ended September 30	
	2007	2006	2007	2006
<b>Log Sales Revenue</b> (in millions of dollars)				
Domestic	\$ 22.1	\$ 26.4	\$ 104.9	\$ 96.2
Export – Asia	24.4	23.0	70.6	102.1
Export – US	10.9	12.2	40.5	43.0
<b>Total log sales</b>	<b>\$ 57.4</b>	<b>\$ 61.6</b>	<b>\$ 216.0</b>	<b>\$ 241.3</b>
<b>Log Sales Realizations</b> (\$/m <sup>3</sup> )				
Domestic	91	80	85	78
Export – Asia	106	129	116	132
Export – US	83	113	85	98
	<b>95</b>	<b>100</b>	<b>93</b>	<b>99</b>
<b>Log Sales Volume</b> (thousand m <sup>3</sup> )				
Domestic	242.7	330.9	1,230.4	1,228.2
Export – Asia	229.5	177.9	611.4	775.3
Export – US	130.7	107.4	476.4	439.5
	<b>602.9</b>	<b>616.2</b>	<b>2,318.2</b>	<b>2,443.0</b>
<b>Log Sales Mix</b> (thousand m <sup>3</sup> )				
Fir	347.5	320.5	1,545.9	1,585.0
Hem-bal	160.3	186.9	474.1	441.4
Cedar	47.9	61.2	160.0	221.8
Other	47.2	47.6	138.2	194.8
	<b>602.9</b>	<b>616.2</b>	<b>2,318.2</b>	<b>2,443.0</b>
<b>Log Production Volume</b> (thousand m <sup>3</sup> )				
Public tenures	89.4	214.1	376.5	634.9
Private timberlands	119.1	378.5	2,014.1	1,981.6
	<b>208.5</b>	<b>592.6</b>	<b>2,390.6</b>	<b>2,616.5</b>
<b>Log Production Costs</b> (\$/m <sup>3</sup> )				
	<b>123.0</b>	<b>81.1</b>	<b>70.4</b>	<b>65.8</b>

Log sales revenues for the three months ended September 30, 2007, were down compared to log sales revenues for the third quarter of 2006 due to lower log sales volumes and average log realizations as a result of weak log markets in the US and Japan.

Average domestic realizations for the third quarter of 2007 were higher than the third quarter of 2006 as domestic prices were firm for some species in the third quarter due to tighter supply as a result of the strike. Average export realizations were lower in the third quarter of 2007 compared to the third quarter of 2006 due to further weakening in log and lumber markets in North America, and oversupply of logs in Japan and the impact of the rapidly appreciating Canadian dollar.

On a year-to-date basis, sales revenue was down with sales realizations weaker with lower export realizations, weaker sales mix, stronger Canadian dollar, and lower sales volumes. Logging costs on a year-to-date basis were higher primarily because of an increase in contractor costs earlier in the year.

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Unit production costs for the third quarter of 2007 increased over the third quarter of 2006 due to lower production volumes as a result of the United Steelworkers labour disruption that commenced on July 21, 2007. Unit production costs on a year-to-date basis were higher as a result of strike and higher contractor rates. We were able to produce higher volumes early in the year when markets were better, and our contractor rates were lower.

	Three months ended September 30		Nine months ended September 30	
	2007	2006	2007	2006
<b>Elk Falls Sawmill:</b>				
<b>Sales Revenue by Product</b> <i>(in millions of dollars)</i>				
Lumber	\$ 9.6	\$ 27.1	\$ 55.9	\$ 87.8
Wood chips and residuals	4.9	5.8	15.7	17.4
<b>Sales Realizations</b>				
Lumber (\$/mfbm)	513	648	615	626
Wood chips (\$/m <sup>3</sup> )	50	36	49	35
<b>Sales Volume</b>				
Lumber (million fbm)	18.7	41.8	90.9	140.3
Wood chips and residuals (thousand m <sup>3</sup> )	62.6	89.4	202.6	278.9
<b>Lumber Production Volume</b> (million fbm)	29.5	45.8	99.3	141.9

Sales realizations for the three months ended September 30, 2007, were lower relative to sales realizations for the third quarter of 2006 due to weaker markets generally. During the quarter, lumber markets experienced oversupply in all areas. The sawmill took four weeks of market related downtime during the third quarter of 2007, compared to no downtime during the same period in 2006. Year-to-date, the mill has taken ten weeks of market-related downtime resulting in a sharp decline in revenues. In addition, transportation delays have been a problem all year for the mill and at the end of the quarter shipments were delayed which further reduced revenues.

Wood chips and residuals sales for the three month period ended September 30, 2007, of \$4.9 million were down from \$5.8 million for the comparative period in 2006, reflecting the reduction in chips produced due to downtime during the third quarter of 2007.

	Three months ended September 30		Nine months ended September 30	
	2007	2006	2007	2006
<b>Real Estate Business Unit:</b>				
Real Estate Sales <i>(in millions of dollars)</i>	\$ 1.2	\$ 2.3	\$ 1.8	\$ 21.0
Real Estate Net Proceeds <i>(in millions of dollars)</i>	1.0	2.1	1.5	19.0
Real Estate Net Proceeds <i>(\$/acre)</i>	2,820	7,908	3,509	9,383

Real estate sales for the third quarter of 2007 and the nine months ending September 30, 2007 were lower than the comparative periods in 2006, reflecting timing differences in sales transactions. Proceeds from the sale of real estate for the nine months ended September 30, 2006 included the sale of the former Youbou sawmill site for \$9.5 million.

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	Three months ended September 30		Nine months ended September 30	
	2007	2006	2007	2006
<b>Earnings (loss) Before Interest, Taxes, Depreciation and Amortization (EBITDA)<sup>2</sup></b> <i>(in millions of dollars)</i>				
Net earnings (loss)	\$ (28.1)	\$ (12.8)	\$ (31.7)	\$ 2.3
Add (deduct):				
Interest on Series A Subordinate Notes paid to unitholders	20.9	20.9	62.7	62.7
Interest on long-term debt	0.7	3.6	1.2	11.0
Interest on short-term debt	3.4	—	10.2	—
Income tax recovery	(0.9)	(0.8)	(3.5)	(24.8)
Depreciation, depletion and amortization	1.6	2.0	6.2	6.4
Amortization of deferred financing costs (note 2)	0.5	0.1	0.8	0.4
<b>EBITDA</b>	<b>(1.9)</b>	<b>13.0</b>	<b>45.9</b>	<b>58.0</b>

## Financial Position

<b>Summary of Financial Position</b> <i>(in millions of dollars)</i>	<b>As at September 30, 2007</b>	<b>As at December 31, 2006</b>
Cash and cash equivalents	\$ 1.0	\$ 9.3
Current assets	76.2	83.1
Current liabilities	254.7	253.8
Current liabilities (excluding credit facility and debentures)	46.7	58.8
Long-term liabilities	206.4	189.2
Series A Subordinate notes owned by unitholders	698.0	697.0
Unitholder's equity	210.7	241.6

Cash and cash equivalents decreased to \$1.0 million as at September 30, 2007, reflecting an increase in non-cash working capital. Trade accounts receivable decreased to \$12.1 million at September 30, 2007, compared to \$16.9 million at the end of 2006, reflecting the effect of decreased log and lumber sales revenue due to the weaker market conditions, the USW labour disruption, and lumber production curtailments during the third quarter of 2007, compared to the fourth quarter of 2006. Inventories were \$50.0 million at September 30, 2007, compared to \$49.0 million at the end of 2006. Prepaid expenses and other current assets were \$11.2 million at September 30, 2007, compared to \$5.6 million at the end of 2006, reflecting increased balances in non-trade receivables and property tax prepaid expenses.

Property, plant and equipment were \$1,291.7 million as at September 30, 2007, \$4.6 million less than as at December 31, 2006. This decrease primarily reflects the provision for depreciation of capital assets of \$6.2 million recorded during this period, offset in part by capital additions of \$2.2 million, comprised primarily of logging roads.

Current liabilities as at September 30, 2007, include borrowings of \$13.0 million on the Tranche B short-term unsecured revolving credit facility and the \$195.0 million aggregate net carrying value (\$195.0 million principal amount) of 7.0% unsecured senior debentures. The debentures were reclassified from long-term to current liabilities in the fourth quarter of 2006. Of note is that effective January 1, 2007, the debentures are recorded at amortized cost using the effective interest method from adoption of new accounting policies (See Highlights and Significant Transactions – *Adoption of New Accounting Policies - Financial Instruments*). Subsequent to September 30, 2007, the company used the Tranche A long-term unsecured revolving credit facility to pay out the maturity of the \$195.0 million principle amount of 7.0% unsecured senior debentures (See Subsequent Event – *Redemption of Debentures*). Excluding the short-term credit facility and the debentures, current liabilities at September 30, 2007 were \$46.7 million. This quarterly variance in current liabilities (excluding credit facility and debentures) can be attributed to a \$12.1 million decrease in accounts payable and accrued liabilities which is primarily attributed to lower harvest levels in September 2007 as a result of the USW labour disruption compared to December 2006.



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As at September 30, 2007, the Company had combined borrowings of \$33.0 million on its available credit facilities, including borrowings of \$20.0 million on its Tranche A \$200.0 million long-term unsecured revolving facility, and \$13.0 million on its Tranche B \$100.0 million short-term unsecured revolving facility. In addition, the Company had commitments of \$17.1 million relating to outstanding letters of credit, including \$16.1 million issued under its demand bank guarantee facility and \$1.0 million issued under its Tranche A \$200.0 million long-term unsecured revolving facility.

The \$195.0 million aggregate net carrying value (\$195.0 million principal amount) of the 7.0% unsecured senior debentures matured on October 1, 2007, and the Company used the Tranche A \$200.0 million long-term unsecured revolving credit facility to pay out the maturity.

Other long-term liabilities as at September 30, 2007, included a silviculture liability of \$3.1 million, a \$40.7 million liability relating to employee future benefits and a future income tax liability of \$142.6 million. These balances are comparable to balances as at December 31, 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. Effective January 1, 2007, the Series A Subordinate Note liability is recorded at amortized cost using the effective interest method from adoption of new accounting policies. (See Highlights and Significant Transactions – *Adoption of New Accounting Policies - Financial Instruments*) As at September 30, 2007, the carrying value of the Series A Subordinate Note liability was \$698.0 million.

During the quarter ended September 30, 2007, options to purchase 8,433 Stapled Units were exercised for proceeds of \$0.1 million and 8,160 options were cancelled. During the nine months ended September 30, 2007, 339,370 Stapled Unit options were granted, options to purchase 102,979 Stapled Units were exercised for proceeds of \$1.5 million and 8,160 options were cancelled. As at October 30, 2007, the Company had 1,164,065 granted and outstanding Stapled Unit option awards and 77,738,233 issued and outstanding Stapled Units.

As of the end of the third quarter, TimberWest had \$300.0 million of borrowing capacity with \$228.0 million drawn.

# TIMBERWEST FOREST CORP.

## Cash Flow and Liquidity

Selected Cash Flow Items <i>(in millions of dollars)</i>	Three months ended September 30		Nine months ended September 30	
	2007	2006	2007	2006
<b>Cash provided by (used in):</b>				
<b>Operating activities:</b>				
Cash provided by (used in) operations before changes in non-cash working capital	\$ (26.7)	\$ (11.2)	\$ (33.0)	\$ (1.7)
Changes in non-cash working capital	20.9	10.4	(13.9)	28.3
	(5.8)	(0.8)	(46.9)	26.6
<b>Financing activities:</b>				
Issuance of Stapled Units on exercise of options	0.1	0.7	1.5	1.2
Credit facilities	8.5	—	33.0	(37.0)
Demand credit facility	(1.2)	—	—	—
	7.4	0.7	34.5	(35.8)
<b>Investing activities:</b>				
Proceeds from sale of other assets	1.1	2.2	6.8	19.1
Additions to property, plant and equipment	(0.9)	(2.2)	(2.2)	(3.7)
Other assets	(0.8)	0.2	(0.5)	1.1
	(0.6)	0.2	4.1	16.5
<b>Increase (decrease) in cash and cash equivalents</b>	\$ 1.0	\$ 0.1	\$ (8.3)	\$ 7.3

During the three months ended September 30, 2007, the Company issued 8,433 Stapled Units on the exercise of Stapled Unit options for net proceeds of \$0.1 million, compared to the issuance of 53,425 Stapled Units on the exercise of Stapled Unit options for net proceeds of \$0.7 million in the comparative quarter in 2006. During the third quarter of 2007, \$7.3 million was borrowed on available credit facilities, as compared to no borrowings on available credit facilities during the same period in 2006.

For the nine months ended September 30, 2007, the Company issued 102,979 Stapled Units for net proceeds of \$1.5 million on the exercise of Stapled Unit options, compared to the issuance of 95,517 Stapled Units for net proceeds of \$1.2 million on the exercise of Stapled Unit options in comparative period in 2006. During the first nine months of 2007, \$33.0 million was borrowed on available credit facilities as compared to \$37.0 million that was applied to reduce amounts borrowed on available credit facilities during the same period in 2006.

In the third quarter of 2007, the Company received net proceeds of \$1.1 million from the sale of other assets, primarily from the sale of higher and better use properties, and incurred \$0.9 million for capital expenditures primarily for the construction of logging roads. For the nine months ended September 30, 2007, the Company received net proceeds of \$6.8 million from the sale of other assets, which includes gross proceeds of \$5.0 million from the disposition of a subsidiary trust and \$1.5 million from the sale of higher and better use properties. The Company incurred \$2.2 million for capital expenditures primarily for the construction of logging roads.

As at September 30, 2007, the principal amount of TimberWest's total debt<sup>4</sup> outstanding was \$228.0 million compared to total principal amount of debt outstanding of \$195.0 million as at December 31, 2006. The Company's consolidated debt-to-total capitalization ratio<sup>4</sup> as at September 30, 2007 was 20:80, compared to 17:83 as at December 31, 2006.

<sup>4</sup> Total debt and the debt-to-total capitalization ratio are measures that do not have a standardized meaning prescribed by GAAP and may not be comparable to similar measures presented by other companies. As the Company's Series A Subordinate Notes trade only as part of the Company's equity instrument, the Stapled Unit, they are not included in the Company's definition of debt. Management believes that the presentation of these measures will enhance an investor's understanding of the Company's financial resources and capital structure.



## TIMBERWEST FOREST CORP.

Total debt facilities available to the Company as at September 30, 2007, were \$511.3 million, comprised of \$16.3 million available under a demand bank guarantee facility, \$100.0 million available under Tranche B, a short-term revolving facility due September 24, 2008, \$200.0 million available under Tranche A, a long-term revolving facility due September 24, 2012 and \$195.0 million aggregate principal amount of 7.0% debentures maturing on October 1, 2007. As at September 30, 2007 the Company had commitments of \$17.1 million relating to outstanding letters of credit issued to secure various obligations of the Company, including \$16.1 million issued under its demand bank guarantee facility and \$1.0 million issued under Tranche A, the \$200.0 million long-term unsecured revolving facility.

The Company used the Tranche A facility to pay out the maturity of the \$195.0 million aggregate principle amount of 7.0% debentures on October 1, 2007. The total debt facilities available to the Company as at October 1, 2007, were \$316.3 million, comprised of \$16.3 million available under a demand bank guarantee facility, \$100.0 million available under Tranche B, a short-term revolving facility due September 24, 2008 and \$200.0 million available under Tranche A, a long-term revolving facility due September 24, 2012.

### **Internal Controls over Financial Reporting**

During the quarter ended September 30, 2007, the Company did not make any changes to its internal controls over financial reporting that would have materially affected, or would likely materially affect, such controls.

### **Forward Looking Statements**

*The statements which are not historical facts contained in this release 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 and Comprehensive Income

(in millions of dollars)  
Unaudited

	Three months ended September 30		Nine months ended September 30	
	2007	2006	2007	2006
Sales	\$ 73.1	\$ 96.8	\$ 289.4	\$ 367.5
Operating costs and expenses:				
Cost of sales	71.5	80.4	236.7	281.3
Selling, administrative and other	3.7	3.1	13.2	10.6
Depreciation, depletion and amortization	1.6	2.0	6.2	6.4
	76.8	85.5	256.1	298.3
Operating earnings (loss)	(3.7)	11.3	33.3	69.2
Interest expense:				
Series A Subordinate Notes owned by unitholders	20.9	20.9	62.7	62.7
Long-term debt	0.7	3.6	1.2	11.0
Short-term debt	3.4	—	10.2	—
	25.0	24.5	74.1	73.7
Amortization of deferred financing costs (note 2)	0.5	0.1	0.8	0.4
Other income	(0.2)	(0.2)	(6.4)	(0.1)
Pension plan annuitization (note 3)	—	0.5	—	17.7
	25.3	24.9	68.5	91.7
Loss before income taxes	(29.0)	(13.6)	(35.2)	(22.5)
Income tax recovery (note 4)	(0.9)	(0.8)	(3.5)	(24.8)
Net earnings (loss) and comprehensive income (loss)	\$ (28.1)	\$ (12.8)	\$ (31.7)	\$ 2.3

Earnings (loss) per common share (note 5)

Basic	\$ (0.36)	\$ (0.17)	\$ (0.41)	\$ 0.03
Diluted	\$ (0.36)	\$ (0.16)	\$ (0.41)	\$ 0.03

## Consolidated Statements of Retained Earnings

(in millions of dollars)  
Unaudited

	Three months ended September 30		Nine months ended September 30	
	2007	2006	2007	2006
Retained earnings, beginning of period	\$ 46.5	\$ 48.3	\$ 50.1	\$ 33.2
Net earnings (loss) and comprehensive income (loss) for the period	(28.1)	(12.8)	(31.7)	2.3
Retained earnings, end of period	\$ 18.4	\$ 35.5	\$ 18.4	\$ 35.5

See accompanying notes to unaudited interim consolidated financial statements.

# TIMBERWEST FOREST CORP.

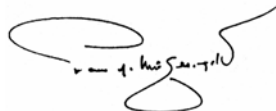
## Consolidated Balance Sheets

(in millions of dollars)

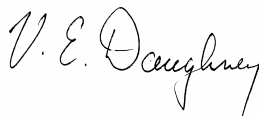
	As at September 30, 2007 <i>Unaudited</i>	As at December 31, 2006
<b>Assets</b>		
Current assets:		
Cash	\$ 1.0	\$ 9.3
Accounts receivable	12.1	16.9
Inventories	50.0	49.0
Prepaid expenses and other current assets	11.2	5.6
Future income taxes	1.9	2.3
	<b>76.2</b>	<b>83.1</b>
Property, plant and equipment, net (note 6)	1,291.7	1,296.3
Other assets (note 7)	1.9	2.2
	<b>\$ 1,369.8</b>	<b>\$ 1,381.6</b>
<b>Liabilities and Unitholders' Equity</b>		
Current liabilities:		
Revolving credit facilities (note 8)	\$ 13.0	\$ —
Debentures (note 2)	195.0	195.0
Accounts payable and accrued liabilities	25.8	37.9
Distribution payable	20.9	20.9
	<b>254.7</b>	<b>253.8</b>
Revolving credit facilities (note 8)	20.0	—
Long-term silviculture liability	3.1	3.6
Employee future benefits (note 10)	40.7	39.2
Future income taxes	142.6	146.4
	<b>461.1</b>	<b>443.0</b>
Series A Subordinate Notes owned by unitholders (note 2 and 9)	698.0	697.0
	<b>1,159.1</b>	<b>1,140.0</b>
Unitholders' equity:		
Share capital, consisting of common and preferred shares (note 9)	190.9	190.4
Contributed surplus	1.4	1.1
Retained earnings	18.4	50.1
	<b>210.7</b>	<b>241.6</b>
	<b>\$ 1,369.8</b>	<b>\$ 1,381.6</b>

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	
	2007	2006	2007	2006
<b>Cash provided by (used in):</b>				
<b>Operating activities:</b>				
Net earnings (loss)	\$ (28.1)	\$ (12.8)	\$ (31.7)	\$ 2.3
Items not involving cash:				
Depreciation, depletion and amortization	2.1	2.1	7.0	6.8
Gain on sale of property, plant and equipment	(0.8)	(1.3)	(6.2)	(4.0)
Future income tax recovery	(0.8)	(0.8)	(3.4)	(25.0)
Other non-cash items	0.9	1.6	1.3	18.2
	(26.7)	(11.2)	(33.0)	(1.7)
Changes in non-cash working capital:				
Accounts receivable	9.5	8.5	4.8	10.8
Inventories	29.2	6.1	(1.0)	5.8
Prepaid expenses and other working capital	1.2	0.9	(5.6)	2.5
Accounts payable and accrued liabilities	(19.0)	(5.1)	(12.1)	9.2
	(5.8)	(0.8)	(46.9)	26.6
<b>Financing activities:</b>				
Issuance of Stapled Units on exercise of options:				
Series A Subordinate Notes	0.1	0.5	1.0	0.9
Share capital	—	0.2	0.5	0.3
	0.1	0.7	1.5	1.2
Demand credit facility	(1.2)	—	—	—
Revolving credit facilities	8.5	—	33.0	(37.0)
	7.4	0.7	34.5	(35.8)
<b>Investing activities:</b>				
Proceeds from sale of property, plant and equipment	1.1	2.2	6.8	19.1
Additions to property, plant and equipment	(0.9)	(2.2)	(2.2)	(3.7)
Other assets	(0.8)	0.2	(0.5)	1.1
	(0.6)	0.2	4.1	16.5
<b>Increase (decrease) in cash and cash equivalents</b>	<b>1.0</b>	<b>0.1</b>	<b>(8.3)</b>	<b>7.3</b>
<b>Cash and cash equivalents, beginning of period</b>	<b>—</b>	<b>10.2</b>	<b>9.3</b>	<b>3.0</b>
<b>Cash and cash equivalents, end of period</b>	<b>\$ 1.0</b>	<b>\$ 10.3</b>	<b>\$ 1.0</b>	<b>\$ 10.3</b>
<b>Supplemental information:</b>				
Interest on Series A Subordinate Notes paid to unitholders	\$ 20.9	\$ 20.9	\$ 62.7	\$ 62.7
Other interest paid	\$ 0.7	\$ 0.1	\$ 8.1	\$ 7.5
Income taxes paid	\$ —	\$ (0.1)	\$ —	\$ 0.2

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, 2007 and 2006

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 ("GAAP") 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, 2006, except for the adoption of new accounting policies as described in note 2.

### 2. Adoption of New Accounting Policies

Financial instruments:

The Canadian Institute of Chartered Accountants ("CICA") issued Section 3855, *Financial Instruments – Recognition and Measurement*, Section 3861, *Financial Instruments: Disclosure and Presentation*, Section 3865, *Hedges* and Section 1530, *Comprehensive Income*, all applicable for annual or interim periods beginning on or after October 1, 2006. Sections 3855 and 3861 require all financial assets, financial liabilities and non-financial derivatives to be recognized on the balance sheet at the appropriate measurement and properly disclosed in the notes to the consolidated financial statements. Section 3865 sets out hedge accounting prerequisites and rules and builds on existing Canadian GAAP guidance by specifying how hedge accounting is applied and disclosed. Section 1530 introduces new standards for the presentation and disclosure of components of comprehensive income. Comprehensive income is defined as the change in net assets of an enterprise during a reporting period from transactions and other events and circumstances from non-owner sources. The Company has adopted the standards on January 1, 2007.

Prior to January 1, 2007, the Company recognized financial liabilities at carrying value. Effective January 1, 2007, the Company adopted Handbook Section 3855 and now measures its debentures and Series A Subordinate Notes owned by unitholders at amortized cost using the effective interest method. The effective interest method establishes the rate which equates the estimated future cash flows with the net carrying amount of the financial liability. The embedded derivative arising from the option to extend the Series A Subordinate Notes for a further 10 year period is measured at fair value.

The Company adopted the new accounting policies on a retroactive basis but prior years have not been restated.

The adoption of new accounting policies for financial instruments has not resulted in any significant changes to TimberWest's financial statements.

### 3. Pension Plan Annuitization

In 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. As a result of this transaction, the Company recorded a \$17.2 million non-cash pension expense in the second quarter of 2006, 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.

In the third quarter of 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. As a result of this transaction, 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 cash cost to the Company, however, the Company recorded a \$0.5 million non-cash pension expense in the third quarter of 2006, representing the settlement loss on finalization of this transaction.

# TIMBERWEST FOREST CORP.

## Notes to Unaudited Interim Consolidated Financial Statements For the three and nine months ended September 30, 2007 and 2006

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

### 4. Income Taxes

	Three months ended September 30		Nine months ended September 30	
	2007	2006	2007	2006
Current income tax expense – large corporation tax	\$ (0.1)	\$ –	\$ (0.1)	\$ 0.2
Future income tax recovery	(0.8)	(0.8)	(3.4)	(25.0)
	\$ (0.9)	\$ (0.8)	\$ (3.5)	\$ (24.8)

In the second quarter of 2007, federal tax bills were substantively enacted, resulting in the reduction of the federal general corporate income tax rate to 18.5% starting in 2011. This change will result in a reduction in the combined federal and provincial statutory corporate income tax rate from 31.0% to 30.5% for 2011 and subsequent years. As a result of this future income tax rate reduction, the Company's future income tax liability was reduced by \$2.6 million and the Company's income tax provision for the nine months ended September 30, 2007 includes a \$2.6 million recovery.

In the second quarter of 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 rate changes resulted in a future income tax recovery of \$14.8 million and the Company's income tax provision for the nine months ended September 30, 2006 includes a future income tax recovery of \$14.8 million.

The Company's future income tax liability was reduced by \$5.8 million for the nine months ended September 30, 2006 as a result of the Company entering into an agreement with a financial institution to purchase annuities for all retirees in the Company's salaried employee defined benefit pension plans in the second quarter of 2006.

### 5. Earnings per Share

	Three months ended September 30		Nine months ended September 30	
	2007	2006	2007	2006
Net earnings (loss)	\$ (28.1)	\$ (12.8)	\$ (31.7)	\$ 2.3
Basic weighted average number of common shares	77,734,269	77,561,016	77,712,124	77,524,571
Incremental common shares from potential exercise of options	116,487	82,386	155,504	74,828
Diluted weighted average number of common shares	77,850,756	77,643,402	77,867,628	77,599,399
Basic net earnings (loss) per common share	\$ (0.36)	\$ (0.17)	\$ (0.41)	\$ 0.03
Diluted net earnings (loss) per common share	\$ (0.36)	\$ (0.16)	\$ (0.41)	\$ 0.03

# TIMBERWEST FOREST CORP.

## Notes to Unaudited Interim Consolidated Financial Statements For the three and nine months ended September 30, 2007 and 2006

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

### 6. Property, Plant and Equipment

Property, plant and equipment at September 30, 2007, includes private timberlands with a carrying value of \$1,214.9 million. This amount includes a valuation increase adjustment of \$389.8 million recorded in the year ended December 31, 2000, resulting from the adoption of Section 3465 – Income Taxes of the CICA Handbook, which was mandatory for fiscal years ending on or after January 1, 2000.

### 7. Other Assets

	As at September 30, 2007	As at December 31, 2006
Deferred debt issue costs (note 2)	\$ 0.4	\$ 0.8
Receivable on sale of property, plant and equipment	0.5	0.5
Other	1.0	0.9
	\$ 1.9	\$ 2.2

### 8. Revolving credit facilities

On September 25, 2007, the Company completed and received two credit facilities pursuant to unsecured revolving facilities underwritten by a syndicate of Canadian chartered banks. The first facility, Tranche A, is long-term financing in the amount of \$200.0 million, due on September 24, 2012. The second facility, Tranche B, is short term financing in the amount of \$100.0 million, due on September 24, 2008. Under both facilities, funds are available to the Company in both Canadian and US dollars by way of adjusted prime rate-based loans, bankers' acceptances, LIBOR loans and letters of credit or guarantee. At any time prior to maturity of the facilities and provided no event of default has occurred, the Company may request an increase to the credit facility apportioned proportionally between Tranche A and Tranche B up to the aggregate amount of \$350 million.

On completion of this financing, the Company's long-term financing in the amount of \$65.0 million pursuant to an unsecured revolving facility underwritten by a Canadian chartered bank, due on July 7, 2010 and the Company's long-term financing in the amount of \$100.0 million pursuant to an unsecured revolving facility underwritten by a syndicate of Canadian chartered banks, due on July 27, 2010, were cancelled.

As at September 30, 2007, the Company had combined borrowings of \$33.0 million on its two available unsecured revolving facilities, including borrowing of \$20.0 million on its \$200.0 Tranche A and borrowing of \$13.0 million on its \$100.0 million Tranche B facility. In addition, the Company had commitments of \$1.0 million relating to outstanding letters of credit issued under its Tranche A credit facility, and \$16.1 million relating to outstanding letters of credit issued under its \$16.3 million demand bank guarantee facility.

# TIMBERWEST FOREST CORP.

## Notes to Unaudited Interim Consolidated Financial Statements For the three and nine months ended September 30, 2007 and 2006

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

### 9. Stapled Units

	Stapled Unit Components			Total
	Number	Series A Subordinate Notes	Share Capital (consisting of common and preferred shares)	
Nine months ended September 30, 2006:				
Balance, December 31, 2005	77,487,571	\$695.7	\$189.8	\$885.5
Issuance of Stapled Units on exercise of options	95,517	0.9	0.3	1.2
<b>Balance, September 30, 2006</b>	<b>77,583,088</b>	<b>\$696.6</b>	<b>\$190.1</b>	<b>\$886.7</b>
<b>Nine months ended September 30, 2007:</b>				
Balance, December 31, 2006	77,635,254	\$697.0	\$190.4	\$887.4
Issuance of Stapled Units on exercise of options	<b>102,979</b>	<b>1.0</b>	<b>0.5</b>	<b>1.5</b>
<b>Balance, September 30, 2007</b>	<b>77,738,233</b>	<b>\$698.0</b>	<b>\$190.9</b>	<b>\$888.9</b>

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

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

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

# TIMBERWEST FOREST CORP.

## Notes to Unaudited Interim Consolidated Financial Statements For the three and nine months ended September 30, 2007 and 2006

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

### 10. Employee Benefits

	As at September 30, 2007	As at December 31, 2006
Pension benefits	\$ 8.5	\$ 8.4
Non-pension post-retirement benefits	32.2	30.8
	<b>\$ 40.7</b>	<b>\$ 39.2</b>

The Company, through its subsidiaries, maintains pension plans that include defined benefit and defined contribution segments available to all salaried employees and a small number of hourly retirees not covered by union pension plans. For the three months ended September 30, 2007, the Company recorded an expense of \$0.4 million for pension benefit costs (2006 – \$1.1 million) and made cash payments of \$0.4 million to fund current service costs (2006 – \$0.4 million). For the nine months ended September 30, 2007, the Company recorded an expense of \$1.5 million for pension benefit costs (2006 – \$19.3 million including \$17.7 million representing the non-cash cost related to the annuitization transactions completed in the second and third quarters of 2006 (see note 3)) and made cash payments of \$1.5 million to fund current service costs (2006 – \$3.1 million).

The Company also provides non-pension benefits consisting of group life insurance and medical benefits to eligible retired employees, which the Company funds on an as-incurred basis. For the three months ended September 30, 2007, the Company recorded an expense of \$1.0 million for non-pension benefit costs (2006 – \$1.0 million) and made cash payments of \$0.5 million to fund current benefit costs (2006 – \$0.4 million). For the nine months ended September 30, 2007, the Company recorded an expense of \$3.0 million for non-pension benefit costs (2006 – \$3.0 million) and made cash payments of \$1.6 million to fund current benefit costs (2006 – \$1.4 million).

### 11. 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, 2007 and September 30, 2006, no Stapled Unit options were granted. For the nine months ended September 30, 2007, 339,370 Stapled Unit options were granted at an average price of \$16.46 (2006 – 245,238 Stapled Unit options were granted at an average exercise price of \$13.94).

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:

	2007	2006
Risk-free interest rate	4.1%	4.1%
Expected life (years)	5.0	5.0
Expected volatility	21.6%	20.3%
Dividend yield	6.5%	8.0%
Number of options granted	339,370	245,238
Fair value of each option granted	\$1.84	\$0.92

The compensation cost for the 339,370 Stapled Unit options granted between January 1, 2007 and September 30, 2007 is \$628,000 (2006 – 245,238 Stapled Unit options were granted with a compensation cost of \$226,000). 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 \$98,000 and \$459,000 has been recognized in net earnings for the three and nine months ended September 30, 2007 (2006 – \$55,000 and \$224,000, respectively) with a corresponding credit to contributed surplus.



# TIMBERWEST FOREST CORP.

## Notes to Unaudited Interim Consolidated Financial Statements For the three and nine months ended September 30, 2007 and 2006

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

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

Under the Company's Distribution Equivalent Plan, the Company awards Stapled Unit option holders an amount equal to actual distributions paid on the Company's Stapled Units. Awards granted under the Distribution Equivalent Plan vest under the same terms that apply to the corresponding options and can only be exercised at the time of exercise of the corresponding options. The Company applies the principles of the fair value-based method of accounting for stock-based compensation to awards granted under this plan.

Awards are accrued on a basis equal to actual distributions paid on the Company's issued and outstanding Stapled Units and are charged to earnings as the underlying Stapled Unit options vest. For the three months ended September 30, 2007, \$0.3 million has been accrued for awards granted under this plan (2006 – \$0.3 million) and \$0.3 million has been amortized against earnings for the quarter (2006 – \$0.2 million). For the nine months ended September 30, 2007, \$0.8 million has been accrued for awards granted under the plan (2006 – \$0.8 million) and \$0.9 million has been amortized against earnings for this period (2006 – \$0.7 million).

During the three months ended September 30, 2007, a total of 8,433 Stapled Unit options with an average exercise price of \$13.50 were exercised (2006 – 53,425 Stapled Unit options with an average exercise price of \$12.75 were exercised). For the nine months ended September 30, 2007, a total of 102,979 Stapled Unit options with an average exercise price of \$13.73 were exercised (2006 – 95,517 Stapled Unit options with an average exercise price of \$12.59 were exercised).

For the three and nine months ended September 30, 2007, a total of 8,160 Stapled Unit options with an average exercise price of \$15.41 were cancelled (2006 – 5,637 Stapled Unit options with an average exercise price of \$15.80 were cancelled).

### 12. Comparative figures

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

# TIMBERWEST FOREST CORP.

## Supplemental Information

Unaudited

	Three months ended September 30		Nine months ended September 30	
	2007	2006	2007	2006
<b>Sales Revenue by Product</b>				
<i>(in millions of dollars)</i>				
Log sales				
Domestic	\$ 22.1	\$ 26.4	\$ 104.9	\$ 96.2
Export – Asia	24.4	23.0	70.6	102.1
Export – US	10.9	12.2	40.5	43.0
Total log sales	57.4	61.6	216.0	241.3
Lumber	9.6	27.1	55.9	87.8
Wood chips and other	4.9	5.8	15.7	17.4
Real estate	1.2	2.3	1.8	21.0
	\$ 73.1	\$ 96.8	\$ 289.4	\$ 367.5
<b>Sales Volume</b>				
Logs ( <i>thousand m<sup>3</sup></i> )				
Domestic	242.7	330.9	1,230.4	1,228.2
Export – Asia	229.5	177.9	611.4	775.3
Export – US	130.7	107.4	476.4	439.5
	602.9	616.2	2,318.2	2,443.0
Lumber ( <i>million fbm</i> )	18.7	41.8	90.9	140.3
<b>Log Sales Mix (<i>thousand m<sup>3</sup></i>)</b>				
Fir	347.5	320.5	1,545.9	1,585.0
Hem-bal	160.3	186.9	474.1	441.4
Cedar	47.9	61.2	160.0	221.8
Other	47.2	47.6	138.2	194.8
	602.9	616.2	2,318.2	2,443.0
<b>Production Volume</b>				
Logs ( <i>thousand m<sup>3</sup></i> )				
Public tenures	89.4	214.1	376.5	634.9
Private timberlands	119.1	378.5	2,014.1	1,981.6
	208.5	592.6	2,390.6	2,616.5
Lumber ( <i>million fbm</i> )	29.5	45.8	99.3	141.9
<b>Earnings (loss) Before Interest, Taxes, Depreciation and Amortization*</b>				
<i>(in millions of dollars)</i>				
Net earnings (loss)	\$ (28.1)	\$ (12.8)	\$ (31.7)	\$ 2.3
Add (deduct):				
Interest on Series A Subordinate Notes paid to unitholders	20.9	20.9	62.7	62.7
Interest on long-term debt	0.7	3.6	1.2	11.0
Interest on short-term debt	3.4	–	10.2	–
Income tax recovery	(0.9)	(0.8)	(3.5)	(24.8)
Depreciation, depletion and amortization	1.6	2.0	6.2	6.4
Amortization of deferred financing costs	0.5	0.1	0.8	0.4
Earnings (loss) before interest, taxes, depreciation and amortization	\$ (1.9)	\$ 13.0	\$ 45.9	\$ 58.0

\* Earnings (loss) before interest, taxes, depreciation and amortization is a measure that 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 owns in fee simple approximately 334,000 hectares or 825,000 acres of private timberland that, over the previous five years, have provided an annual average harvest of 2.594 million m<sup>3</sup> of logs and have an approximate annual growth rate of 8.0 m<sup>3</sup> per hectare per year on the productive land base. These timberlands are located on Vancouver Island and the majority of the land base supports the growth of Douglas fir, a premium tree species sought after for structural purposes. TimberWest runs fully-contracted harvesting operations. With almost 80% of the Company's annual private land logging now being done in second-growth stands, TimberWest leads the Coastal industry in the growing and harvesting of second-growth timber.

The Company's independent auditor, KPMG Performance Registrar Inc., periodically certifies that the forest management practices on the Company's private timberland continue to meet all Sustainable Forestry Initiative (SFI<sup>®</sup>) requirements. SFI requirements specify that forest harvesting is integrated with environmental and conservation goals for soil, wildlife, water quality protection, conservation of biodiversity, protection of special sites and aesthetics in a manner that ensures a sustainable harvest over the long-term.

TimberWest also owns renewable Crown harvest rights to 0.7 million m<sup>3</sup> of logs per year and operates a sawmill located near Campbell River, BC.

In addition, approximately 38,000 hectares or 94,000 acres 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.

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Stapled Units of TimberWest Forest Corp. are traded on the Toronto Stock Exchange under the symbol: TWF.UN

Visit us at our web site: [www.timberwest.com](http://www.timberwest.com)

