



TimberWest

Q-3

2005

**Third Quarter
Interim Report**

For the three and
nine months ended
September 30, 2005



TIMBERWEST FOREST CORP.

To Our Unitholders,

TimberWest generated distributable cash of \$13.3 million or \$0.17 per unit for the quarter ended September 30, 2005, before taking into account the \$15.0 million buy-out of the perpetual fibre supply agreement from Western Forest Products Inc. On a year-to-date basis, the Company has generated \$37.6 million in distributable cash or \$0.49 per unit after taking into account the payment of \$15.0 million for the fibre supply buy-out. This compares to the \$107.1 million or \$1.40 per unit in distributable cash generated for the first nine months of 2004, which included \$16.7 million in proceeds from the sale of TFL 46 and \$14.0 million in expropriation settlement proceeds received during this period.

This year has been a challenge on a number of fronts. As we outlined last quarter, the domestic sawmilling industry is contracting; the result of which for us is a weak domestic log market where our prices have eroded by about 15% and volumes have dropped by 12% on a year to date basis. The weakness in domestic log prices is evidenced by a 25% decrease in cedar prices from this time last year. The BC coast needs to close sawmills and reinvest in new conversion technology that is competitive in world markets. The former is beginning to happen, as evidenced by the number of mills no longer operating in this region.

Currency has been another challenge for us this year with a year-over-year appreciation of 9% in the Canadian dollar. We have been unable to push through sufficient price increases in any of our export markets, even the US where prices have been relatively strong this year, to compensate for this. As a result, realizations in all of our export markets are tracking lower than this time last year. Record levels of log export volumes this year have allowed us to increase sales revenues from our export program, despite these reduced realizations.

In this environment, the management team has been focused on costs, continuing on with our Operations Excellence strategy and continuing to move TimberWest closer to its goal of becoming an unencumbered timberland company. The move to contracting out our harvesting and road building activities has gone well and we are pleased with the contractors' performance this year in what has been a year of considerable transition for them and their employees. Our costs are improving primarily as a result of using lower-cost harvest systems and we continue to work with our contractors for further efficiencies and improvements.

We are also pleased with the buy-out of the fibre supply agreement from Western Forest Products Inc. This buy-out removes a major encumbrance and allows us to ensure that we get the maximum value in the market for our fibre. This fibre supply agreement, entered into in 1997, required TimberWest to offer Western, in perpetuity, an annual volume of 330,000 m³ of primarily Douglas fir sawlogs at domestic prices.

On October 6, 2005, we announced the start of a process to sell our Elk Falls sawmill. Elk Falls is one of the best performing whitewood mills on the BC coast. It has a strong management team and a skilled, highly motivated workforce. Earnings and cash flow were positive during the third quarter. Recent capital additions by TimberWest have been successful but the mill requires another infusion of capital for continued success. However, the sawmilling business has volatile cash flows while our unitholders have expressed a clear preference for the more stable cash flows generated in the timberlands business. We believe it will be better for our unitholders if we focus our resources on timberland assets.

The Vancouver Island real estate market has been strengthening and we intend to take advantage of improved market conditions. We have a number of larger real estate transactions underway with our higher and better use properties. While we anticipate that some of these will close before year end, we expect that the more significant of these transactions will not close until early 2006. We believe that an orderly disposition of these properties will maximize value for our unitholders.

TimberWest refinanced its major credit facilities during the quarter to take advantage of the current favourable interest rate market. We now have five-year term financing in place to cover our liquidity requirements.

Safety performance remains extremely important to our organization and we are continuing with our proactive safety auditing and contractor monitoring programs. We are pleased with the results of the audits so far, especially for our single-stem helicopter logging contractor as this can be a very dangerous harvesting system if the necessary safeguards are not in place to protect personnel. We are impressed with the high safety standards that this contractor employs. Being the BC coast's largest second-growth operation helps with TimberWest's safety performance since a high proportion of our falling is mechanized, providing a safer environment for fallers.

Turning to our outlook, we expect better results in the upcoming fourth quarter than we have had in the previous two quarters. With higher log sales volumes, higher real estate sales, and lower operating costs expected in the fourth quarter, we anticipate generating enough cash to meet our quarterly distribution requirement.

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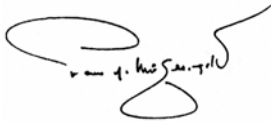
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That said, our biggest challenge all year long has been the decline in our average log sales realizations in both domestic and export markets. Export prices have suffered as a result of the stronger Canadian dollar while log prices on the coast of BC reflect the poor financial condition and profitability of a sawmilling industry in the midst of restructuring. Soft log prices are expected to follow us into the fourth quarter.

Unlike the previous fiscal year, when we comfortably exceeded our distributable cash requirements, and despite expectations for a better fourth quarter, TimberWest will not cover its distribution requirements for the year 2005. However, the Company remains in a strong financial condition, is becoming lower cost, less encumbered and more focused, and intends to pay out its full required distributions for 2005. I am also pleased to confirm that TimberWest's next quarterly distribution of \$0.269 per Stapled Unit will be paid on January 15, 2006 to unitholders of record on January 1, 2006. Since TimberWest's inception in July, 1997, the Company has distributed in excess of \$629 million to its unitholders and has strengthened its balance sheet.

As we look forward to 2006, we foresee similar operating results and market conditions, along with a strong Canadian dollar. We will continue with our cost cutting efforts, we will take advantage of the strong real estate market on Vancouver Island and we will pursue the disposition of non-core assets to meet our distribution requirements as the coastal BC industry continues with its reforms.

On behalf of the Board of Directors



Paul J. McElligott
President and Chief Executive Officer

Vancouver, British Columbia
October 26, 2005

TIMBERWEST FOREST CORP.

Management's Discussion and Analysis

For the three and nine months ended September 30, 2005 and 2004

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

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

This management's discussion and analysis has been prepared based on information available as at October 25, 2005.

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

Distributable Cash

(in millions of dollars)	Three months ended September 30		Nine months ended September 30	
	2005	2004	2005	2004
Net earnings (loss)	\$ (17.0)	\$ 12.6	\$ (26.1)	\$ 24.9
Interest on Series A Subordinate Notes owned by unitholders	20.8	20.6	62.4	61.8
Earnings available for distribution	3.8	33.2	36.3	86.7
Future income tax recovery on earnings before extraordinary item	(10.7)	(5.2)	(10.6)	(6.1)
Future income tax expense on extraordinary item	—	5.0	—	5.0
Earnings (loss) available for distribution before provision for future income taxes	(6.9)	33.0	25.7	85.6
Add (deduct):				
Depreciation, depletion and amortization	2.5	2.5	7.2	8.6
Proceeds from sale of property, plant and equipment	2.4	2.7	33.0	21.3
Loss (gain) on sale of property, plant and equipment	0.1	(0.5)	(6.2)	(5.9)
Additions to property, plant and equipment	(0.2)	(2.5)	(22.5)	(4.5)
Other non-cash items	0.4	0.7	0.4	2.0
	5.2	2.9	11.9	21.5
Distributable cash	\$ (1.7)	\$ 35.9	\$ 37.6	\$ 107.1
Consists of:				
Distributable cash before extraordinary item	\$ (1.7)	\$ 21.9	\$ 37.6	\$ 93.1
Distributable cash from extraordinary item	—	14.0	—	14.0
	\$ (1.7)	\$ 35.9	\$ 37.6	\$ 107.1
Cash distributions paid	\$ 20.8	\$ 20.6	\$ 62.3	\$ 61.7

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Per Stapled Unit amounts:

<i>(in dollars)</i>	Three months ended September 30		Nine months ended September 30	
	2005	2004	2005	2004
<i>Basic and diluted earnings available for distribution before provision for future income taxes per weighted average Stapled Unit</i>	\$ (0.09)	\$ 0.43	\$ 0.33	\$ 1.12
<i>Basic and diluted distributable cash per weighted average Stapled Unit:</i>				
– before extraordinary item	\$ (0.02)	\$ 0.29	\$ 0.49	\$ 1.22
– from extraordinary item	–	0.18	–	0.18
	\$ (0.02)	\$ 0.47	\$ 0.49	\$ 1.40
<i>Cash distributions paid per Stapled Unit</i>	\$ 0.27	\$ 0.27	\$ 0.81	\$ 0.81

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

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

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

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

	2005	2004	2003	2002	2001	2000
Distributable Cash						
<i>(in millions of dollars)</i>						
First quarter	\$ 23.9	\$ 27.7	\$ 25.7	\$ 21.2	\$ 25.9	\$ 28.4
Second quarter	15.4	43.5	4.7	10.6	26.7	28.2
Third quarter	(1.7)	35.9	12.0	34.1	14.1	14.1
Fourth quarter		18.1	9.0	24.2	16.8	18.5
	\$ 37.6	\$ 125.2	\$ 51.4	\$ 90.1	\$ 83.5	\$ 89.2
Distributable Cash per Stapled Unit						
<i>(in dollars)</i>						
First quarter	\$ 0.31	\$ 0.36	\$ 0.34	\$ 0.30	\$ 0.40	\$ 0.41
Second quarter	0.20	0.57	0.06	0.14	0.41	0.42
Third quarter	(0.02)	0.47	0.15	0.45	0.22	0.22
Fourth quarter		0.24	0.12	0.32	0.26	0.29
	\$ 0.49	\$ 1.64	\$ 0.67	\$ 1.21	\$ 1.29	\$ 1.34

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Quarterly Financial Highlights

TimberWest reported negative distributable cash of \$1.7 million or basic and diluted negative distributable cash of \$0.02 per weighted average Stapled Unit for the three months ended September 30, 2005, compared to \$35.9 million or basic and diluted distributable cash of \$0.47 per weighted average Stapled Unit for the same period in 2004. The variance in distributable cash from the prior year period can be attributed to several factors, including: lower operating earnings in the third quarter of 2005, reflecting lower average realizations on log and lumber sales; the payment of \$15.0 million or \$0.19 per Stapled Unit in the third quarter of 2005 to terminate a fibre supply agreement (see "Highlights and Significant Transactions – Termination of Fibre Supply Agreement"); and the receipt of \$14.0 million or \$0.18 per Stapled Unit in the third quarter of 2004 as settlement for the 1995 expropriation of timber harvesting rights (disclosed in 2004 as an extraordinary item). Proceeds from the sale of real estate for the quarter were \$2.2 million compared to \$2.3 million for the same period in 2004. TimberWest reported negative earnings available for distribution, before provision for future income taxes, for the third quarter of 2005 of \$6.9 million or \$0.09 per basic and diluted weighted average Stapled Unit compared to earnings available for distribution, before provision for future income taxes, of \$33.0 million or \$0.43 per basic and diluted weighted average Stapled Unit for the same quarter in 2004.

Sales for the third quarter of 2005 were \$119.7 million, comparable to sales of \$119.9 million reported for the third quarter of 2004. Operating earnings were \$14.0 million compared to \$23.0 million for the same period in 2004. As noted previously, the year-over-year softening of the operating margin primarily reflects lower average realizations on log and lumber sales, which were off 14% and 16%, respectively, compared to the same period in 2004. Earnings before interest, taxes, depreciation and amortization (EBITDA)¹ for the quarter ended September 30, 2005, were \$0.2 million or nil per basic and diluted weighted average Stapled Unit compared to \$25.6 million or \$0.33 per basic and diluted weighted average Stapled Unit for the same period in 2004. During the third quarter of 2005, a 1.5% reduction in the British Columbia general corporate income tax rate was substantively enacted, resulting in a future income tax recovery of \$9.2 million being recorded during the three months ended September 30, 2005. The Company incurred a net loss of \$17.0 million for the quarter ended September 30, equating to a basic and diluted net loss of \$0.22 per weighted average common share, compared to net earnings of \$12.6 million or basic and diluted net earnings of \$0.16 per weighted average common share for the same period in 2004. As noted previously, the Company made a payment of \$15.0 million in the third quarter of 2005 to terminate a fibre supply agreement, and in the third quarter of 2004 received \$14.0 million for the expropriation of timber harvesting rights.

Year to Date Financial Highlights

TimberWest generated distributable cash of \$37.6 million or basic and diluted distributable cash of \$0.49 per weighted average Stapled Unit for the nine months ended September 30, 2005, compared to \$107.1 million or basic and diluted distributable cash of \$1.40 per weighted average Stapled Unit for the same period in 2004. The year-over-year decrease can be attributed to several items, including: lower operating earnings in the first nine months of 2005, reflecting lower average realizations on log and lumber sales compared to the same period in 2004; the receipt of cash proceeds of \$16.7 million or \$0.22 per Stapled Unit from the sale of TFL 46 in 2004; the payment of \$15.0 million or \$0.19 per Stapled Unit in 2005 to terminate a fibre supply agreement; and the receipt of \$14.0 million or \$0.18 per Stapled Unit in 2004 as settlement for the expropriation of timber harvesting rights. Also noteworthy is an atypically large number of property, plant and equipment transactions in both 2005 and 2004, including the buy-out of leases on company-operated logging equipment for \$21.0 million and the subsequent sale of this leased equipment and other company-owned logging equipment to long-term contractors for proceeds of approximately \$25.1 million as part of the 2005 business transformation initiative, and, as noted previously, the receipt of cash proceeds of \$16.7 million from the sale of TFL 46 in 2004. Proceeds from the sale of real estate for the first nine months of 2005 were \$4.2 million compared to \$3.3 million for the same period in 2004. Earnings available for distribution for the nine months ended September 30, 2005, before provision for future income taxes, were \$25.7 million or \$0.33 per basic and diluted weighted average Stapled Unit compared to \$85.6 million or \$1.12 per basic and diluted weighted average Stapled Unit for the same period in 2004.

Sales for the first nine months of 2005 were \$325.9 million compared to \$362.1 million reported for the comparative period of 2004. Operating earnings were \$49.1 million for the first nine months of 2005 compared to \$79.4 million for the same period in 2004. EBITDA for the nine months ended September 30, 2005, were \$45.4 million or \$0.59 per basic and diluted weighted average Stapled Unit compared to \$92.6 million or \$1.21 per basic

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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and diluted weighted average Stapled Unit for the same period in 2004. As noted previously, a 1.5% reduction in the British Columbia general corporate income tax rate was substantively enacted during the third quarter of 2005, resulting in a future income tax recovery of \$9.2 million being recorded during the nine months ended September 30, 2005. The Company incurred a net loss of \$26.1 million, or a basic and diluted net loss of \$0.34 per weighted average common share, for the nine months ended September 30, 2005, compared to net earnings of \$24.9 million or basic and diluted net earnings of \$0.32 per weighted average common share for the same period in 2004. As noted previously, the payment in 2005 of \$15.0 million to terminate a fibre supply agreement is reflected in the net loss for the nine months ended September 30, 2005. Year to date results for 2005 also includes \$3.7 million received in the first quarter of 2005 as compensation for the loss of logging rights under the Forestry Revitalization Plan, and reflects a \$2.0 million restructuring charge taken in the second quarter of 2005 related to the Company's business transformation initiative. In addition, net earnings for the nine months ended September 30, 2004 reflect a \$14.0 million expropriation settlement received in that year and disclosed as an extraordinary item.

Subsequent Event – Process for the Sale of the Elk Falls Lumbermill

On October 6, 2005, the Company announced its decision to begin a sales process for the Elk Falls Lumbermill. The Elk Falls facility, located at Campbell River on Vancouver Island, consists of a medium-diameter log lumbermill, an integrated chipping facility, a planermill and dry kilns.

TimberWest's decision to offer the Elk Falls facility for sale was based on a strategic review of the Company's portfolio of assets. The cyclic and capital-intensive nature of the sawmilling business is not consistent with the Company's core business of timberland management and the Company's capital structure.

No private timberlands or Crown cutting rights are included in this sales process.

Highlights and Significant Transactions

Accounting Policy Change – Liabilities and Equity

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

As a result of the amendment to Section 3860, the Series A Subordinate Note component of the Stapled Unit is no longer classified as equity and is now presented as a liability on the Company's consolidated balance sheets. In addition, interest payments on the Series A Subordinate Note component of the Stapled Unit are no longer presented as a direct charge to retained earnings, on an after-tax basis, similar to dividends on common shares. The amendment to Section 3860 requires that these interest payments be reported, on a pre-tax basis, as an interest expense in the statement of operations.

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

Business Transformation

In 2004, TimberWest announced a plan to transform its business model through a restructuring of the Company's log harvesting operation and a move to contract all logging and road building activities. Historically, 50% of the Company's log harvesting was performed by contractors.

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

The Company completed the final phase of the business transformation initiative early in 2005. This involved the buy-out of leases on company-operated logging equipment for \$21.0 million, and the subsequent sale of this leased equipment and other company-owned logging equipment to long-term contractors for proceeds of approximately \$25.1 million. Other income for the nine months ended September 30, 2005 includes a gain on disposal of logging equipment of approximately \$4.4 million.

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



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

Timber Reallocation Agreement

In March 2005, the Company reached an agreement with the Province of British Columbia to compensate the Company for the loss of logging rights through the timber reallocation process under the Province's Forestry Revitalization Plan. Under the agreement, the Company's Crown tenures were reduced, including a 33,207 m³ reduction to Tree Farm Licence 47 and a 2,252 hectare reduction to two Timber Licences held by the Company. These tenures will be reallocated by the Province to community forests, woodlots, First Nations and an expanded BC timber sales program.

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

Increase in Long Run Sustainable Harvest

On October 19, 2004, the Company announced an increase in the long run sustainable harvest on its private timberlands, from 2.3 million 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.

During the second quarter of 2005, the Company's external Sustainable Forestry Initiative (SFI[®]) auditor, KPMG Performance Registrar Inc., completed its assessment of the Company's determination and confirmed that the Company's long term harvest level determination of 2.5 million m³ on the Company's private timberlands can be maintained for the next 50 years, after which it declines to 2.36 million m³, and that the Company's analysis meets all SFI[®] requirements.

To improve the value of the Company, TimberWest is commencing an initiative to further increase the harvest level on its private lands through improved forest management. This year and, markets permitting, over the next three to five years, the Company anticipates increasing private land harvests by about 500,000 m³, to approximately 3.0 million m³ per year. This additional harvest will come from low-margin, low-productivity stands where there is an opportunity to re-establish these stands with better stock. The Company has run this additional harvest volume through its growth and yield model and indications are that taking low-productivity stands out at a faster rate will have no effect on the Company's long run sustainable yield over a 50-year period. The Company will seek SFI[®] certification on its long run sustainable harvest calculation based on this modification.

Termination of Fibre Supply Agreement

During the quarter ended September 30, 2005, the Company reached an agreement to terminate a fibre supply agreement with Western Forest Products Inc. for payment of \$15.0 million. This fibre supply agreement was originally entered into in 1997 and required the Company to offer Western Forest Products Inc., in perpetuity, an annual volume of 330,000 m³ of sawlogs at domestic prices.

This transaction is expected to provide future benefit for the Company as it removes a further encumbrance and will enable the Company to endeavour to get the maximum value for its fibre in the market.

Refinancing of Credit Facilities

During the third quarter of 2005, the Company finalized arrangements for new credit facilities to take advantage of the current favourable interest-rate market.

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

On July 28, 2005, the Company entered into an additional long-term financing facility in the amount of \$100.0 million pursuant to an unsecured revolving facility underwritten by a syndicate of Canadian Chartered banks, due on July 28, 2010. Under this facility, funds are available to the Company in both Canadian and US dollars by way of adjusted prime rate-based loans, US base rate-based loans, bankers' acceptances, LIBOR loans and letters of credit or guarantee. On completion of this facility, both the Company's short-term unsecured committed revolving credit facility for \$40.0 million due on September 1, 2005 and the Company's long-term unsecured revolving credit facility for \$125.0 million due on December 31, 2006, were cancelled. The \$40.0 million revolving facility that was



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cancelled had a \$16.0 million bank guarantee facility attached to it. On July 28, 2005, this bank guarantee facility was renewed as a stand alone facility and is now due on June 30, 2006 and is subject to annual review and renewal.

On August 8, 2005, the Company entered into a short-term financing facility in the amount of \$10.0 million pursuant to an unsecured demand operating credit facility underwritten by a Canadian Chartered bank. Under this facility, funds are available to the Company in both Canadian and US dollars by way of adjusted prime rate-based and US base rate-based loans and are due on demand.

Cash Distribution

On October 26, 2005, TimberWest announced a distribution of \$0.269 per Stapled Unit, payable January 15, 2006, to unitholders of record on January 1, 2006. From inception to September 30, 2005, the Company has generated distributable cash of \$634.4 million while, including the October 15, 2005 distribution of \$20.8 million, the Company has paid out \$629.2 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, 2005, were \$86.4 million, up 6% over log sales for the quarter ended September 30, 2004. This increase reflects the combined effects of higher log sales volumes, totaling 988,300 m³, and lower log sales realizations, averaging \$87 per m³. Log sales volumes into all markets were greater than for the comparative period in 2004. Most noteworthy was a 54% increase in log volumes sold into export markets, including a 78% increase in volumes sold into the US, while domestic sale volumes were up by 5%. Log sales realizations were down in all markets, with both domestic and export market realizations off 17% compared to the same period in 2004. Increased export sales volumes in the current quarter reflect the Company's efforts to offset continued weakness in the domestic market, albeit at reduced realizations compared to 2004. The Canadian dollar appreciated through the third quarter and, on average, was approximately 9% stronger than for the comparative period of 2004, negatively affecting export sales realizations. The timberland operations' operating margin for the quarter averaged 21% of log sales, compared to the margin of 30% for the comparative period in 2004. This unfavourable result can be attributed entirely to lower average sales realizations for the quarter, which offset improvements in production relative to the same period of 2004. Production cost improvements can be attributed to the use of lower-cost harvesting systems compared to 2004.

Log sales for the nine months ended September 30, 2005, were \$239.1 million compared to log sales of \$263.8 million for the nine months ended September 30, 2004. This decrease reflects the combined effects of a decrease in overall log sales realizations, averaging \$91 per m³, and an increase in the volume of logs sold, to 2,625,000 m³. Year to date, log sales realizations were down in all markets, with domestic realizations off 15% and export market realizations off 17% compared to the same period in 2004. Similar to the third quarter of 2005, the continued strength of the Canadian dollar relative to 2004 for the first nine months of 2005 – some 9% stronger – was a key contributor to the lower realizations on export sales. Additionally, export realizations were lower as a result of a shift in sales into lower-value other Asian markets. Export log sales volumes were 33% greater than for the comparative period in 2004, more than offsetting a 12% decrease in log sales volumes into the domestic market. The operating margin from timberland operations averaged 28% of log sales, down from 34% for the same period in 2004. Once again, this unfavourable result can be attributed to lower average sales realizations, the effect of which more than offset slightly more favourable production costs for the first nine months of the current year.

Lumber sales for the quarter ended September 30, 2005, of \$23.4 million were lower than sales for the quarter ended September 30, 2004, reflecting lower lumber sales realizations and volumes compared to the same period in 2004. Despite continued adverse economic conditions and currency pressures, the Elk Falls Lumbermill generated positive cash and earnings for the third quarter of 2005. The lumbermill produced 47.4 million board feet of lumber, a volume comparable to that for the same period in 2004. Unlike the second quarter of 2005, there was no market-related downtime taken during the third quarter of 2005.

Lumber sales for the nine months ended September 30, 2005, of \$64.6 million were lower than sales for the comparative period in 2004, reflecting a decrease in realizations, offset in part by an increase in the volume of lumber sold. As with the third quarter of 2005, weak markets and the continued strength of the Canadian dollar both placed downward pressure on lumber sales realizations on a year-to-date basis. Despite positive results for



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the third quarter of 2005, the lumbermill failed to make a positive cash or earnings contribution for the first nine months of 2005. Year to date, production at the lumbermill was down 6% over the comparative period in 2004, to 123.5 million board feet, primarily reflecting the effects of the five weeks of downtime taken during the second quarter of 2005.

Wood chip sales for both the three and nine month periods ended September 30, 2005, of \$3.2 million and \$8.0 million, respectively, were slightly less than for the comparative periods in 2004, reflecting comparable chip pricing but a reduced volume of wood chips available for sale as the result of lower lumber production at the lumbermill during these periods.

Real estate activity for the third quarter of 2005 generated revenues of \$2.4 million compared to revenues of \$2.2 million for the third quarter of 2004. Year to date, 2005 real estate sales generated revenues of \$4.9 million, slightly greater than the \$3.4 million generated in the same period of 2004.

Financial Position

Current assets increased \$18.2 million to \$106.2 million at September 30, 2005, up from \$88.0 million as at December 31, 2004. This increase reflects increases in trade accounts receivable, inventory and prepaid expenses and other current assets. Accounts receivable are generally low at year end due to reduced sales activity during the year-end holiday season. Inventory levels are also generally lower at year end than through the balance of the year due to seasonal downtime taken at both timberland and lumbermill operations. The increase in prepaid expenses and other current assets reflects greater prepaid expenditures at the end of the third quarter related to the sale of higher and better use properties, increased receivables from the sale of property, plant and equipment, and prepaid property taxes.

Property, plant and equipment were \$1,323.4 million as at September 30, 2005, \$10.9 million less than as at December 31, 2004. This decrease primarily reflects the provision for depreciation on capital assets and the sale of higher and better use properties in the first nine months of 2005. Both capital additions and disposals of property, plant and equipment were unusually high in the first nine months of 2005 as these figures included the cost of buying out leased logging equipment early in the first quarter of the year, and the subsequent resale of this and other company-owned logging equipment to the Company's long-term contractors under the Company's business transformation initiative.

Other assets were \$12.4 million at September 30, 2005 and are comparable to the balance of \$12.2 million at December 31, 2004. Other assets are comprised primarily of prepaid pension benefits and deferred debt issue costs.

Current liabilities as at September 30, 2005, were \$67.7 million compared to \$78.2 million as at December 31, 2004. This variance reflects in part an increase in accounts payable and accrued liabilities compared to balances at the end of the fiscal year due to seasonal production-related curtailments generally taken late in the fourth quarter. In addition, borrowings on revolving credit facilities have been reclassified from short-term to long-term as a result of new credit facilities entered into during the third quarter of 2005.

To take advantage of the favourable interest rate market, the Company undertook a review of available options for refinancing, renewing or extending its available credit facilities in early 2005. To facilitate this process, the Company negotiated extensions on its existing credit facilities until the transition to the new facilities was complete. An overview of this process is provided in this management's discussion and analysis under "Highlights and Significant Transactions – Refinancing of Credit Facilities".

As at September 30, 2005, the Company had combined borrowings of \$50.0 million on its available credit facilities, including borrowings of \$0.5 million on its demand operating facility, \$24.5 million on its \$65.0 million long-term revolving facility and \$25.0 million on its \$100.0 million long-term revolving facility. In addition, the Company had commitments of \$15.9 million at September 30, 2005 relating to outstanding letters of credit issued under its bank guarantee facility.

Long-term financial liabilities as at September 30, 2005, also included \$195.0 million aggregate principal amount of 7.0% unsecured senior debentures due October 1, 2007.

Other long-term liabilities at September 30, 2005 included a silviculture liability of \$3.1 million, a \$28.3 million liability relating to non-pension post-retirement benefits and a future income tax liability of \$212.7 million. The silviculture and non-pension post-retirement benefit liability balances are comparable to balances as at December 31, 2004. The future income tax liability has decreased by \$11.6 million from the balance at December 31, 2004, primarily reflecting a 1.5% reduction in the Province of British Columbia's general corporate income tax rate

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effective July 1, 2005, resulting in a decrease in the combined federal and provincial statutory corporate income tax rate from 35.6% to 34.1% and a consequent \$9.3 million decrease in the Company's future income tax liability.

As noted previously, effective January 1, 2005, the Company was required to adopt an amendment to CICA Handbook Section 3860 – *Financial Instruments: Disclosure and Presentation*. As a result of this amendment to Section 3860, the Series A Subordinate Note component of the Company's Stapled Unit is no longer presented as a component of equity and is now presented as a liability on the Company's consolidated balance sheets. As at September 30, 2005, the Series A Subordinate Note liability was \$693.9 million. Retroactive application of this accounting change has resulted in a \$690.5 million reclassification from equity to liabilities as at December 31, 2004. Additional information on this issue is provided in this management's discussion and analysis under the heading "Accounting Policy Change".

During the quarter ended September 30, 2005, no Stapled Unit options were granted, options to purchase 10,218 Stapled Units were exercised for proceeds of \$130,000 and 18,724 options were cancelled. During the nine months ended September 30, 2005, 348,998 Stapled Unit options were granted, options to purchase 368,064 Stapled Units were exercised for proceeds of \$4.4 million and 70,543 options were cancelled. As at October 25, 2005, the Company had 1,067,969 granted and outstanding Stapled Unit option awards and 77,275,081 issued and outstanding Stapled Units.

Cash Flow and Liquidity

Cash used in operations before changes in non-cash working capital for the three months ended September 30, 2005, was \$24.2 million or \$0.31 per weighted average Stapled Unit compared to \$15.3 million or \$0.20 per weighted average Stapled Unit in 2004. Cash used in operations before changes in non-cash working capital for the nine months ended September 30, 2005, was \$34.2 million or \$0.44 per weighted average Stapled Unit compared to \$25.7 million or \$0.34 per weighted average Stapled Unit in 2004. These results reflect the change in accounting policy for the Series A Subordinate Notes as described under "Accounting Policy Change" whereby interest thereon of \$20.8 million and \$62.4 million for the three and nine month periods ended September 30, 2005, respectively, (2004 – \$20.6 million and \$61.8 million, respectively) are now presented as a use of cash flows under operating activities rather than under financing activities as a distribution. Cash used in operations before changes in non-cash working capital and before distributions to unitholders was \$3.4 million or \$0.04 per Stapled Unit for the third quarter of 2005, compared to \$35.9 million or \$0.47 per Stapled Unit for the third quarter of 2004. Cash provided by operations before changes in non-cash working capital and before distributions to unitholders for the nine months ended September 30, 2005 and September 30, 2004, was \$28.2 million or \$0.37 per Stapled Unit and \$87.5 million or \$1.15 per Stapled Unit, respectively. During the third quarter of 2005, non-cash working capital decreased by \$6.5 million compared to a \$2.5 million decrease reported for the same period in 2004. The current period decrease reflects the combined effect of a decrease in accounts receivable and an increase in both prepaid expenses and other working capital and accounts payable and accrued liabilities compared to balances at June 30, 2005. For the nine months ended September 30, 2005, non-cash working capital increased \$11.1 million compared to a \$3.8 million decrease for the same period in 2004. The current year increase reflects the net effect of an increase in accounts receivable, inventory and prepaid expenses and other working capital, offset in part by an increase in accounts payable and accrued liabilities, compared to balances at December 31, 2004.

Net cash provided by financing activities during the third quarter of 2005 was \$14.0 million compared to \$10.2 million used in financing activities in the comparative period of 2004. During the three months ended September 30, 2005, the Company issued 10,218 Stapled Units on the exercise of Stapled Unit options for net proceeds of \$0.2 million, compared to the issuance of 96,855 Stapled Units on the exercise of Stapled Unit options for net proceeds of \$1.0 million in the comparative period in 2004. In addition, during the third quarter of 2005, \$13.7 million was borrowed on available credit facilities compared to \$11.2 million applied to reduce amounts borrowed on available credit facilities during the comparative period in 2004. Net cash provided by financing activities during the nine months ended September 30, 2005 was \$32.7 million compared to \$38.2 million used in financing activities in the comparative period in 2004. During the nine months ended September 30, 2005, the Company issued 368,064 Stapled Units for net proceeds of \$4.4 million on the exercise of Stapled Unit options, compared to the issuance of 326,305 Stapled Units for net proceeds of \$3.8 million on the exercise of Stapled Unit options in the comparative period in 2004. In addition, during the first nine months of 2005, \$28.0 million was borrowed on available credit facilities compared to \$42.0 million applied to reduce amounts borrowed on available credit facilities during the same period in 2004.

Net cash provided by investing activities during the third quarter of 2005 was \$3.7 million compared to net cash used in investing activities of \$0.2 million for the same period of 2004. The variance from 2004 can primarily be attributed to lower capital expenditures in the current year period. Net cash provided by investing activities during the first nine months of 2005 was \$11.0 million compared to \$16.1 million for the same period of 2004. This



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variance can be attributed to the net effect of the sale of TFL 46 in 2004 for cash proceeds of \$16.2 million and to transactions in the first quarter of 2005 related to the business transformation initiative, including capital additions of \$21.0 million for the buy-out of leases on company-operated logging equipment which was subsequently sold to the Company's new long-term contractors, with the Company receiving approximately \$25.1 million in proceeds from the sale of both leased and company-owned logging equipment. In addition, proceeds from the sale of property, plant and equipment for the first nine months of 2005 included \$3.7 million in proceeds received in connection with the timber reallocation agreement with the Province that was finalized in the first quarter of 2005.

As at September 30, 2005, TimberWest's total debt² outstanding was \$245.0 million compared to \$217.0 million as at December 31, 2004. The Company's consolidated debt-to-total capitalization ratio² as at September 30, 2005 was 22:78, compared to a ratio of 19:81 as at December 31, 2004. Total debt facilities available to the Company as at September 30, 2005 were \$386.0 million, comprised of \$10.0 million available under the demand operating credit facility, \$16.0 million available under the demand bank guarantee facility due June 30, 2006, \$65.0 million available under the revolving facility due July 7, 2010, \$100.0 million available under the revolving facility due July 28, 2010 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. As the Company's Series A Subordinate Notes (September 30, 2005 – \$693.9 million; December 31, 2004 – \$690.5 million) trade only as part of the Company's equity instrument, the Stapled Unit, they are not included in the Company's definition of debt. Management believes that the presentation of these measures will enhance an investor's understanding of the Company's financial resources and capital structure.

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Quarterly Financial Information

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

<i>(in millions of dollars, except per common share and per Stapled Unit amounts)</i>	2003		2004				2005		
	Q4	Q1	Q2	Q3	Q4	Q1	Q2	Q3	
Sales	\$ 96.3	\$ 105.4	\$ 136.8	\$ 119.9	\$ 114.9	\$ 98.6	\$ 107.6	\$ 119.7	
Operating earnings	\$ 5.8	\$ 28.0	\$ 28.4	\$ 23.0	\$ 15.0	\$ 17.3	\$ 17.8	\$ 14.0	
Net earnings (loss) before extraordinary item	\$ (19.7)	\$ 3.8	\$ 8.5	\$ 3.6	\$ (1.2)	\$ (2.4)	\$ (6.7)	\$ (17.0)	
Extraordinary item, net of applicable income taxes	\$ –	\$ –	\$ –	\$ 9.0	\$ –	\$ –	\$ –	\$ –	
Net earnings (loss)	\$ (19.7)	\$ 3.8	\$ 8.5	\$ 12.6	\$ (1.2)	\$ (2.4)	\$ (6.7)	\$ (17.0)	
Earnings available for distribution	\$ 0.8	\$ 24.4	\$ 29.1	\$ 33.2	\$ 19.5	\$ 18.4	\$ 14.1	\$ 3.8	
Earnings available for distribution before provision for future income taxes	\$ 1.3	\$ 23.6	\$ 29.0	\$ 33.0	\$ 13.2	\$ 19.6	\$ 13.0	\$ (6.9)	
Distributable cash before extraordinary item	\$ 9.0	\$ 27.7	\$ 43.5	\$ 21.9	\$ 18.1	\$ 23.9	\$ 15.4	\$ (1.7)	
Distributable cash from extraordinary item	\$ –	\$ –	\$ –	\$ 14.0	\$ –	\$ –	\$ –	\$ –	
Distributable cash	\$ 9.0	\$ 27.7	\$ 43.5	\$ 35.9	\$ 18.1	\$ 23.9	\$ 15.4	\$ (1.7)	
Distributions paid	\$ 20.5	\$ 20.5	\$ 20.6	\$ 20.6	\$ 20.6	\$ 20.7	\$ 20.8	\$ 20.8	
<i>\$ per common share</i> ³									
Basic and diluted net earnings (loss) before extraordinary item	\$ (0.26)	\$ 0.05	\$ 0.11	\$ 0.05	\$ (0.02)	\$ (0.03)	\$ (0.09)	\$ (0.22)	
Extraordinary item	\$ –	\$ –	\$ –	\$ 0.11	\$ –	\$ –	\$ –	\$ –	
Basic and diluted net earnings (loss) after extraordinary item	\$ (0.26)	\$ 0.05	\$ 0.11	\$ 0.16	\$ (0.02)	\$ (0.03)	\$ (0.09)	\$ (0.22)	
<i>\$ per Stapled Unit</i> ³									
Basic and diluted earnings available for distribution	\$ 0.01	\$ 0.32	\$ 0.38	\$ 0.43	\$ 0.25	\$ 0.24	\$ 0.18	\$ 0.05	
Basic and diluted earnings available for distribution before provision for future income taxes	\$ 0.02	\$ 0.31	\$ 0.38	\$ 0.43	\$ 0.17	\$ 0.25	\$ 0.17	\$ (0.09)	
Basic and diluted distributable cash before extraordinary item	\$ 0.12	\$ 0.36	\$ 0.57	\$ 0.29	\$ 0.24	\$ 0.31	\$ 0.20	\$ (0.02)	
Basic and diluted distributable cash from extraordinary item	\$ –	\$ –	\$ –	\$ 0.18	\$ –	\$ –	\$ –	\$ –	
Basic and diluted distributable cash	\$ 0.12	\$ 0.36	\$ 0.57	\$ 0.47	\$ 0.24	\$ 0.31	\$ 0.20	\$ (0.02)	
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

Liabilities and equity:

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

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

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

Given that the number of shares required to retire the Subordinate Note component is not fixed, the Series A Subordinate Note component of the Stapled Unit is no longer classified as equity and is now presented as a liability on the Company's consolidated balance sheets. As at September 30, 2005, the Series A Subordinate Note liability was \$693.9 million (December 31, 2004 – \$690.5 million).

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

For the three months ended September 30, 2005, interest on the Series A Subordinate Notes of \$20.8 million has been reported as an interest expense in the consolidated statements of operations, whereas in 2004 the interest amount of \$20.6 million and the income tax benefit thereon of \$7.3 million had previously been reported in retained earnings. For the nine months ended September 30, 2005, interest on the Series A Subordinate Notes of \$62.4 million has been reported as an interest expense in the consolidated statements of operations, whereas in 2004 the interest amount of \$61.8 million and the income tax benefit thereon of \$22.0 million had previously been reported in retained earnings.

Outlook

TimberWest is expecting a stronger quarter to end the year. Our plans see us generating sufficient cash to fund our quarterly distribution as a result of more real estate transactions and lower operating costs. That said, our biggest challenge all year long has been the decline in our average log sales realizations in both domestic and export markets. Export prices have suffered as a result of the stronger Canadian dollar while log prices on the coast of BC reflect the poor financial condition and profitability of a sawmilling industry that is contracting. Soft log prices are expected to follow us into the fourth quarter.

While we will continue to experience top-line pressure for the balance of the year, cost improvements are offsetting some of this. We still expect to end the year with costs ahead of 2004 and are very pleased with the progress our contractors have made in the transition to our new business model.

Most real estate markets on Vancouver Island are strong and the Company is pursuing some larger real estate transactions with its higher and better use properties at this time. While we anticipate that some of these transactions will close during the fourth quarter, we do not expect the more significant transactions to close until



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early 2006. We are patient sellers and want to ensure that we are maximizing the value from all of our real estate opportunities.

Unlike the previous fiscal year, when we comfortably exceeded our distributable cash requirements, and despite expectations for a better fourth quarter, TimberWest will not cover its distribution requirements for the year 2005. However, the Company remains in a strong financial condition, is progressing with its program to become an unencumbered, pure-play timberland company, and will pay out its full required distributions for 2005.

As we look forward to 2006, we foresee similar operating results and market conditions. We will continue with our cost cutting efforts, we will take advantage of the strong real estate market on Vancouver Island and we will pursue the disposition of non-core assets to cover our distribution requirements as the coastal BC industry continues with its reforms.

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



TIMBERWEST FOREST CORP.

Notice

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

TIMBERWEST FOREST CORP.

Consolidated Statements of Operations

(in millions of dollars)
Unaudited

	Three months ended September 30		Nine months ended September 30	
	2005	2004	2005	2004
Sales	\$ 119.7	\$ 119.9	\$ 325.9	\$ 362.1
Operating costs and expenses:				
Cost of products sold	99.1	90.7	259.3	264.7
Depreciation, depletion and amortization	2.3	2.3	6.6	7.7
Selling, administrative and other	4.3	3.9	10.9	10.3
	105.7	96.9	276.8	282.7
Operating earnings	14.0	23.0	49.1	79.4
Interest expense:				
Series A Subordinate Notes owned by unitholders (note 2)	20.8	20.6	62.4	61.8
Long-term debt	4.3	3.5	10.8	10.5
Short-term debt	0.1	0.4	1.1	1.5
	25.2	24.5	74.3	73.8
Amortization of deferred financing costs	0.2	0.2	0.6	0.9
Other (income) expense (note 3)	1.1	(0.3)	(4.7)	(5.5)
Termination of fibre supply agreement (note 4)	15.0	—	15.0	—
	41.5	24.4	85.2	69.2
Earnings (loss) before income taxes and extraordinary item	(27.5)	(1.4)	(36.1)	10.2
Income tax recovery (note 5)	(10.5)	(5.0)	(10.0)	(5.7)
Earnings (loss) before extraordinary item	(17.0)	3.6	(26.1)	15.9
Extraordinary item – expropriation settlement proceeds, net of applicable income taxes (note 6)	—	9.0	—	9.0
Net earnings (loss)	\$ (17.0)	\$ 12.6	\$ (26.1)	\$ 24.9
Basic and diluted earnings (loss) per common share before extraordinary item (note 7)	\$ (0.22)	\$ 0.05	\$ (0.34)	\$ 0.21
Extraordinary item, net of applicable income taxes	—	0.11	—	0.11
Basic and diluted net earnings (loss) per common share (note 7)	\$ (0.22)	\$ 0.16	\$ (0.34)	\$ 0.32

Consolidated Statements of Retained Earnings

(in millions of dollars)
Unaudited

	Three months ended September 30		Nine months ended September 30	
	2005	2004	2005	2004
Retained earnings, beginning of period	\$ 19.3	\$ 17.0	\$ 28.4	\$ 4.7
Net earnings (loss) for the period	(17.0)	12.6	(26.1)	24.9
Retained earnings, end of period	\$ 2.3	\$ 29.6	\$ 2.3	\$ 29.6

See accompanying notes to unaudited interim consolidated financial statements.

TIMBERWEST FOREST CORP.

Consolidated Balance Sheets

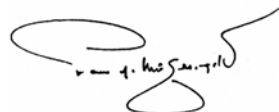
(in millions of dollars)

	As at September 30, 2005 <i>Unaudited</i>	As at December 31, 2004 (restated – note 2)
Assets		
Current assets:		
Cash	\$ —	\$ 1.6
Accounts receivable	21.2	14.7
Inventories	69.9	62.2
Prepaid expenses and other current assets	12.3	5.7
Future income taxes (note 5)	2.8	3.8
	106.2	88.0
Property, plant and equipment, net (note 8)	1,323.4	1,334.3
Other assets	12.4	12.2
	\$ 1,442.0	\$ 1,434.5
Liabilities and Unitholders' Equity		
Current liabilities:		
Demand credit facility (note 9)	\$ 0.5	\$ —
Revolving credit facilities (note 9)	—	22.0
Accounts payable and accrued liabilities	46.4	35.5
Distribution payable	20.8	20.7
	67.7	78.2
Revolving credit facilities (note 9)	49.5	—
Debentures	195.0	195.0
Long-term silviculture liability	3.1	2.8
Non-pension post-retirement benefits	28.3	27.1
Future income taxes (note 5)	212.7	224.3
	556.3	527.4
Series A Subordinate Notes owned by unitholders (notes 2 and 10)	693.9	690.5
	1,250.2	1,217.9
Unitholders' equity:		
Share capital, consisting of common and preferred shares (note 10)	188.8	187.8
Contributed surplus	0.7	0.4
Retained earnings	2.3	28.4
	191.8	216.6
	\$ 1,442.0	\$ 1,434.5

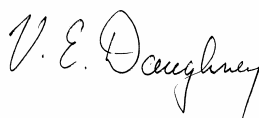
Subsequent events (note 14)

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	
	2005	2004	2005	2004
Cash provided by (used in):				
Operating activities:				
Net earnings (loss)	\$ (17.0)	\$ 12.6	\$ (26.1)	\$ 24.9
Items not involving cash:				
Depreciation, depletion and amortization	2.5	2.5	7.2	8.6
(Gain) loss on sale of property, plant and equipment	0.1	(0.5)	(6.2)	(5.9)
Future income tax recovery (note 6)	(10.7)	(0.2)	(10.6)	(1.1)
Other non-cash items	0.9	0.9	1.5	(0.8)
	(24.2)	15.3	(34.2)	25.7
Changes in non-cash working capital:				
Accounts receivable	7.0	1.1	(6.5)	(9.3)
Inventories	0.7	4.5	(7.7)	(10.5)
Prepaid expenses and other	(5.2)	(0.8)	(7.9)	2.1
Accounts payable and accrued liabilities	4.0	(2.3)	10.9	21.4
Distribution payable	–	–	0.1	0.1
	(17.7)	17.8	(45.3)	29.5
Financing activities:				
Issuance of Stapled Units on exercise of options:				
Series A Subordinate Notes	0.2	0.9	3.4	3.0
Share capital	–	0.1	1.0	0.8
	0.2	1.0	4.4	3.8
Forfeited distribution equivalent awards	0.1	–	0.3	–
Demand credit facility	0.5	–	0.5	–
Revolving credit facilities	13.2	(11.2)	27.5	(42.0)
	14.0	(10.2)	32.7	(38.2)
Investing activities:				
Proceeds from sale of property, plant and equipment (note 3)	2.4	2.7	33.0	21.3
Additions to property, plant and equipment (note 3)	(0.2)	(2.5)	(22.5)	(4.5)
Other assets	1.5	(0.4)	0.5	(0.7)
	3.7	(0.2)	11.0	16.1
Increase (decrease) in cash	–	–	(1.6)	7.4
Cash, beginning of period	–	–	1.6	–
Cash, end of period	\$ –	\$ –	\$ –	\$ 7.4
Supplemental information:				
Interest on Series A Subordinate Notes paid to unitholders	\$ 20.8	\$ 20.6	\$ 62.3	\$ 61.7
Other interest paid	\$ 0.8	\$ 0.5	\$ 8.6	\$ 8.6
Income taxes paid	\$ 0.2	\$ 0.2	\$ 0.5	\$ 0.6

See accompanying notes to unaudited interim consolidated financial statements.



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Notes to Unaudited Interim Consolidated Financial Statements For the three and nine months ended September 30, 2005 and 2004

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

1. Significant Accounting Policies

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

2. Change in Accounting Policy

Liabilities and equity:

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

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

Given that the number of shares required to retire the Subordinate Note component is not fixed, the Series A Subordinate Note component of the Stapled Unit is no longer classified as equity and is now presented as a liability on the Company's consolidated balance sheets. As at September 30, 2005, the Series A Subordinate Note liability was \$693.9 million (December 31, 2004 – \$690.5 million).

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

For the three months ended September 30, 2005, interest on the Series A Subordinate Notes of \$20.8 million has been reported as an interest expense in the consolidated statements of operations, whereas in 2004 the interest amount of \$20.6 million and the income tax benefit thereon of \$7.3 million had previously been reported in retained earnings. For the nine months ended September 30, 2005, interest on the Series A Subordinate Notes of \$62.4 million has been reported as an interest expense in the consolidated statements of operations, whereas in 2004 the interest amount of \$61.8 million and the income tax benefit thereon of \$22.0 million had previously been reported in retained earnings.

TIMBERWEST FOREST CORP.

Notes to Unaudited Interim Consolidated Financial Statements

For the three and nine months ended September 30, 2005 and 2004

3. Business Transformation

The Company completed the final phase of its business transformation initiative early in 2005, with the buy-out of leases on Company operated logging equipment for \$21.0 million, and the subsequent sale of this leased equipment and other company-owned logging equipment to long-term contractors for proceeds of approximately \$25.1 million. Other income for the nine months ended September 30, 2005 includes a gain on disposal of the logging equipment of approximately \$4.4 million.

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

On May 6, 2004, the Company completed the sale of its southern Vancouver Island public land operations, referred to as TFL 46. The sale price for these assets was \$17.9 million. Other income for the nine months ended September 30, 2004, includes the gain on the sale of these operations.

4. Termination of Fibre Supply Agreement

During the three months ended September 30, 2005, the Company reached an agreement to terminate a fibre supply agreement with a customer for payment of \$15.0 million. This fibre supply agreement was originally entered into in 1997 and required the Company to offer the customer, in perpetuity, an annual volume of 330,000 m³ of sawlogs at domestic market prices.

5. Income Taxes

	Three months ended September 30		Nine months ended September 30	
	2005	2004	2005	2004
Current income tax expense				
Large corporation tax	\$ 0.2	\$ 0.2	\$ 0.6	\$ 0.4
Future income tax recovery	(10.7)	(5.2)	(10.6)	(6.1)
	\$ (10.5)	\$ (5.0)	\$ (10.0)	\$ (5.7)

During the three months ended September 30, 2005, a 1.5% reduction in the British Columbia general corporate income tax rate effective July 1, 2005 was substantively enacted, resulting in a reduction in the combined federal and provincial statutory corporate income tax rate from 35.6% to 34.1%. As a result of this income tax rate reduction, as at September 30, 2005, the Company's future income tax asset was reduced by \$0.1 million and its future income tax liability was reduced by \$9.3 million. This change resulted in a future income tax recovery of \$9.2 million being recorded during the three and nine month periods ended September 30, 2005.

TIMBERWEST FOREST CORP.

Notes to Unaudited Interim Consolidated Financial Statements

For the three and nine months ended September 30, 2005 and 2004

6. 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 were 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 had non-capital losses carried forward from previous taxation years, income taxes were not 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, were both reduced by \$5.0 million to recognize the benefit of the losses utilized and fully offset the tax expense charged to the extraordinary item.

7. Earnings per Share

	Three months ended September 30		Nine months ended September 30	
	2005	2004	2005	2004
Earnings (loss) before extraordinary item	\$ (17.0)	\$ 3.6	\$ (26.1)	\$ 15.9
Extraordinary item, net of income taxes	–	9.0	–	9.0
Net earnings (loss)	\$ (17.0)	\$ 12.6	\$ (26.1)	\$ 24.9
Basic weighted average number of common shares	77,268,894	76,535,214	77,143,044	76,427,642
Incremental common shares from potential exercise of options	142,248	166,776	143,482	116,355
Diluted weighted average number of common shares	77,411,142	76,701,990	77,286,526	76,543,997
Basic and diluted net earnings (loss) before extraordinary item per common share	\$ (0.22)	\$ 0.05	\$ (0.34)	\$ 0.21
Extraordinary item, net of income taxes	–	0.11	–	0.11
Basic and diluted net earnings (loss) per common share	\$ (0.22)	\$ 0.16	\$ (0.34)	\$ 0.32

8. Property, Plant and Equipment

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

9. Credit Facilities

On February 28, 2005, the Company entered into an extension to June 1, 2005 of short-term financing facility from a Canadian bank that was previously due on March 1, 2005. On June 1, 2005, the Company entered into a further extension on this short-term facility to September 1, 2005. This short-term facility consisted of an unsecured demand bank guarantee facility in the amount of \$16.0 million and an unsecured committed revolving facility in the amount of \$40.0 million. On July 28, 2005, upon completion of a long-term financing arrangement, the \$40.0 million revolving facility was cancelled. At this time, the \$16.0 million bank guarantee facility was renewed as a stand alone facility and is now due on June 30, 2006, and is subject to annual review and renewal.

On May 18, 2005, the Company entered into an extension to July 30, 2005 of short-term financing facility from a Canadian bank that was previously due on May 25, 2005. On June 28, 2005, the Company entered into a further extension on this short-term facility to July 31, 2005. This short-term facility consisted of an unsecured committed revolving facility in the amount of \$40.0 million. On July 7, 2005, upon completion of a long-term financing arrangement, this short-term financing was cancelled.

TIMBERWEST FOREST CORP.

Notes to Unaudited Interim Consolidated Financial Statements

For the three and nine months ended September 30, 2005 and 2004

9. Credit Facilities (continued)

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

On July 28, 2005, the Company entered into an additional long-term financing facility in the amount of \$100.0 million pursuant to an unsecured revolving facility underwritten by a syndicate of Canadian Chartered banks, due on July 28, 2010. Under this facility, funds are available to the Company in both Canadian and US dollars by way of adjusted prime rate-based loans, US base rate-based loans, bankers' acceptances, LIBOR loans and letters of credit or guarantee. On completion of this facility, both the Company's short-term unsecured committed revolving credit facility for \$40.0 million due on September 1, 2005 and long-term unsecured revolving credit facility for \$125.0 million due on December 31, 2006, were cancelled.

On August 8, 2005, the Company entered into a short-term financing facility in the amount of \$10.0 million pursuant to an unsecured demand operating credit facility underwritten by a Canadian Chartered bank. Under this facility, funds are available to the Company in both Canadian and US dollars by way of adjusted prime rate-based and US base rate-based loans and are due on demand.

As at September 30, 2005, the Company had combined borrowings of \$50.0 million on available credit facilities, including borrowing of \$0.5 million on its \$10.0 million demand operating facility, borrowing of \$24.5 million on its \$65.0 million long-term unsecured revolving facility and borrowing of \$25.0 million on its \$100.0 million long-term unsecured revolving facility. In addition, the Company had commitments of \$15.9 million relating to outstanding letters of credit issued under its \$16.0 million demand bank guarantee facility.

10. Stapled Units

	Stapled Unit Components			Total
	Number	Series A Subordinate Notes	Share Capital (consisting of common and preferred shares)	
Nine months ended September 30, 2004:				
Balance, December 31, 2003	76,246,122	\$ 684.6	\$ 186.0	\$ 870.6
Issuance of Stapled Units on exercise of options	326,305	2.9	0.9	3.8
Balance, September 30, 2004	76,572,427	\$ 687.5	\$ 186.9	\$ 874.4
Nine months ended September 30, 2005:				
Balance, December 31, 2004	76,907,017	\$ 690.5	\$ 187.8	\$ 878.3
Issuance of Stapled Units on exercise of options	368,064	3.4	1.0	4.4
Balance, September 30, 2005	77,275,081	\$ 693.9	\$ 188.8	\$ 882.7

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.

TIMBERWEST FOREST CORP.

Notes to Unaudited Interim Consolidated Financial Statements

For the three and nine months ended September 30, 2005 and 2004

10. Stapled Units (continued)

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.

11. Employee Benefits

The Company, through its subsidiaries, maintains pension plans that include defined benefit and defined contribution segments available to all salaried employees and to hourly employees not covered by union pension plans. During the three months ended September 30, 2005, the Company recorded an expense of \$0.6 million for pension benefit costs (2004 – \$0.8 million) and made cash payments of \$0.8 million to fund current and future service costs (2004 – \$0.5 million). For the nine months ended September 30, 2005, the Company recorded an expense of \$1.7 million for pension benefit costs (2004 – \$2.3 million) and made cash payments of \$2.6 million to fund current and future service costs (2004 – \$1.3 million).

The Company also provides non-pension benefits consisting of group life insurance and medical benefits to eligible retired employees, which the Company funds on an as-incurred basis. During the three months ended September 30, 2005, the Company recorded an expense of \$0.9 million for non-pension benefit costs (2004 – \$1.0 million) and made cash payments of \$0.3 million to fund current and future benefit costs (2004 – \$0.4 million). For the nine months ended September 30, 2005, the Company recorded an expense of \$2.7 million for non-pension benefit costs (2004 – \$2.8 million) and made cash payments of \$1.4 million to fund current and future benefit costs (2004 – \$1.3 million).

12. Stock-based Compensation Plans

Under the Company's Stapled Unit Option Plan, the Company may grant options for the purchase of Stapled Units to directors, officers or employees who are in active service or employment of the Company or of any of its subsidiaries. During the three months ended September 30, 2005, no Stapled Unit options were granted (2004 – nil). For the nine months ended September 30, 2005, 348,998 Stapled Unit options were granted at an average exercise price of \$15.79 (2004 – 313,220 Stapled Unit options were granted at an average exercise price of \$12.21).

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

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

TIMBERWEST FOREST CORP.

Notes to Unaudited Interim Consolidated Financial Statements

For the three and nine months ended September 30, 2005 and 2004

12. Stock-based Compensation Plans (continued)

The compensation cost for the 348,998 Stapled Unit options granted between January 1, 2005 and September 30, 2005 is \$454,900 (2004 – 313,220 Stapled Unit options were granted with a compensation cost of \$269,000). The compensation cost of Stapled Unit option awards is amortized against earnings over the three-year vesting period of the underlying options. An expense of \$111,000 and \$280,000 has been recognized in net earnings for the three and nine month periods ended September 30, 2005, respectively, (2004 – \$55,000 and \$134,000, respectively,) for option awards made during fiscal 2005, 2004 and 2003, with a corresponding credit to contributed surplus.

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

Under the Company's Distribution Equivalent Plan, the Company awards certain Stapled Unit option holders an amount equal to actual distributions paid on the Company's Stapled Units. Awards granted under the Distribution Equivalent Plan vest under the same terms that apply to the corresponding options and can only be exercised at the time of exercise of the corresponding options. The Company applies the principles of the fair value-based method of accounting for stock-based compensation to awards granted under this plan. Awards are accrued on a basis equal to actual distributions paid on the Company's issued and outstanding Stapled Units and are charged to earnings as the underlying Stapled Unit options vest. During the three months ended September 30, 2005, \$0.3 million has been accrued for awards granted under this plan (2004 – \$0.3 million) and \$0.4 million has been amortized against earnings for the quarter (2004 – \$0.3 million). For the nine months ended September 30, 2005, \$0.9 million has been accrued for awards granted under this plan (2004 – \$1.0 million) and \$0.8 million has been amortized against earnings for this period (2004 – \$1.0 million).

During the three months ended September 30, 2005, a total of 10,218 Stapled Unit options with an average exercise price of \$12.72 were exercised and 18,724 Stapled Unit options with an average exercise price of \$14.56 were cancelled (2004 – 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). For the nine months ended September 30, 2005, a total of 368,064 Stapled Unit options with an average exercise price of \$11.84 were exercised and 70,543 Stapled Unit options with an average exercise price of \$14.33 were cancelled (2004 – 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).

13. Comparative Figures

Certain comparative figures have been reclassified to conform to presentation adopted in the current periods.

14. Subsequent Event

Subsequent to September 30, 2005, the Company announced its decision to begin a sales process for the Elk Falls Lumbermill. The Elk Falls facility, located at Campbell River on Vancouver Island, consists of a medium-diameter log lumbermill, an integrated chipping facility, a planer mill and dry kilns. The lumbermill processes medium-diameter logs that have predominantly been hemlock and Douglas fir.

No private timberlands or Crown cutting rights are included in this sales process.

TIMBERWEST FOREST CORP.

Supplemental Information

Unaudited

Three months ended
September 30

Nine months ended
September 30

2005

2004

2005

2004

Sales by Product

(in millions of dollars)

Log sales

Domestic	\$ 37.0	\$ 42.4	\$ 106.4	\$ 143.5
Export – Asia	27.4	24.3	83.9	82.2
Export – US	22.0	14.6	48.8	38.1

Total log sales	86.4	81.3	239.1	263.8
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Lumber	23.4	30.4	64.6	77.7
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Wood chips and other	7.5	6.0	17.3	17.2
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Real estate	2.4	2.2	4.9	3.4
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	\$ 119.7	\$ 119.9	\$ 325.9	\$ 362.1
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Sales Volume

Logs (thousand m³)

Domestic	537.8	510.5	1,461.2	1,666.9
Export – Asia	203.6	154.5	618.5	514.1
Export – US	246.9	139.0	544.9	360.7

	988.3	804.0	2,624.6	2,541.7
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Lumber (million fbm)	42.9	46.6	119.0	117.8
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Log Sales Mix (thousand m³)

Fir	507.4	369.9	1,491.0	1,446.8
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Hembal	321.3	264.5	687.6	602.9
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Cedar	92.4	76.5	264.6	256.1
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Other	67.2	93.1	181.4	235.9
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	988.3	804.0	2,624.6	2,541.7
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Production Volume

Logs (thousand m³)

Public tenures	277.1	201.8	585.9	743.3
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Private timberlands	773.4	559.0	2,254.5	1,953.6
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	1,050.5	760.8	2,840.4	2,696.9
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Lumber (million fbm)	47.4	48.4	123.5	131.6
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Earnings Before Interest, Taxes, Depreciation and Amortization (EBITDA)*

(in millions of dollars)

Net earnings (loss)	\$ (17.0)	\$ 12.6	\$ (26.1)	\$ 24.9
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Add (deduct):

Interest on Series A Subordinate Notes paid to unitholders	20.8	20.6	62.4	61.8
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Interest on long-term debt	4.3	3.5	10.8	10.5
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Interest on short-term debt	0.1	0.4	1.1	1.5
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Income tax expense (recovery)	(10.5)	(5.0)	(10.0)	(5.7)
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Depreciation, depletion and amortization	2.3	2.3	6.6	7.7
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Amortization of deferred financing costs	0.2	0.2	0.6	0.9
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Extraordinary item, net of income taxes	–	(9.0)	–	(9.0)
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EBITDA	\$ 0.2	\$ 25.6	\$ 45.4	\$ 92.6
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* EBITDA does not have a standardized meaning prescribed by Canadian generally accepted accounting principles and may not be comparable to similar measures presented by other companies. Management believes that the presentation of this measure will enhance an investor's understanding of the Company's operating performance.

TIMBERWEST FOREST CORP.

About TimberWest

TimberWest Forest Corp. is uniquely positioned as the largest owner of private forest lands in western Canada. The Company's 334,000 hectares, providing a sustainable annual harvest of 2.5 million m³ of logs, are located on Vancouver Island and predominantly support the growth of Douglas fir forests, a premium species used for structural purposes. TimberWest runs fully-contracted harvesting operations. With approximately 70% of the Company's logging now being done in second-growth stands, TimberWest leads the industry in the harvest of second-growth timber. Third party auditors have certified that the management of the Company's private forest land conforms to the objectives and performance measures of the American Forest and Paper Association's Sustainable Forestry Initiative (SFI[®]). TimberWest also owns renewable Crown harvest rights to 0.7 million m³ of logs per year and operates a lumbermill located near Campbell River, BC. In addition, approximately 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.

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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

