TimberWest

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# FOURTH QUARTER INTERIM REPORT

## FOR THE THREE AND TWELVE MONTHS ENDED DECEMBER 31, 2002

# TimberWest Forest Corp.

# TIMBERWEST FOREST CORP.

## To Our Unitholders,

I am pleased to report that TimberWest has delivered its best fourth quarter ever, finishing the three month period ending December 31, 2002, with distributable cash of $24.2 million, or $0.32 per weighted average Stapled Unit. Following our best third quarter ever, we really are getting traction with our cost reduction program and have seen steady improvement this year in our margins. All parts of our organization have pulled together to achieve this success and deliver on our commitments and I have been impressed with the enthusiasm, hard work and dedication that TimberWest people have demonstrated. Not only do our financial results provide evidence of this commitment, but our safety record does as well. We beat our Medical Incident Rate goal of 6.0 by reducing it to 4.66, and we will continue to focus on improving our safety performance.

Despite continuing weak markets at home and abroad, ongoing uncertainties in the industry related to the softwood lumber dispute with the US, and policy reforms expected but not yet initiated by the BC government, TimberWest has delivered consistent results.

For the year ended December 31, 2002, distributable cash generated was $90.1 million, or $1.21 per weighted average Stapled Unit, compared to $83.5 million of distributable cash generated in 2001, or $1.29 per weighted average Stapled Unit. If you look at this result after the $9.8 million restructuring charge we took in the second quarter, distributable cash was $99.9 million or $1.34 per weighted average Stapled Unit. As I reported to you throughout the year, the Company recorded a number of other one-time or unusual items, both positive and negative, which largely offset each other.

We made solid progress in achieving permanent cost reduction in 2002. These cost savings were the result of a wide range of initiatives. In the timberlands part of the business, cost reduction programs included direct shifting changes, increased harvest mechanization and system changes, improved rates and increased production through competitive bid work done by contractors, wage labour compliance changes, fleet management, bulk purchasing, early retirement programs, facilities consolidation and overhead reductions. TimberWest also built a new dryland sort in Menzies Bay, which allowed us to reduce our sorting costs and provide strategic benefits related to the location and security of the ownership of the property.

These cost reduction initiatives generated $17.5 million or $4.90 per $m^3$ of savings against our target of $4.50 per $m^3$. At the end of the year, however, not much of this cost reduction hit the bottom-line, largely due to greatly increased stumpage charges levied by the government. Despite a 14% decrease in harvest volumes from Crown tenures over the prior year, 2002 stumpage payments to the Province increased by 80% to $24.3 million. Still, the cost reduction we achieved throughout the organization provided additional financial flexibility, allowing us to absorb significantly higher stumpage charges and to finance the restructuring charge and still allow us to exceed 2001 distributable cash.

Turning back to the quarter, log sales for the three months ended December 31, 2002, were $103.3 million, slightly higher than the fourth quarter of 2001. There was no appreciable change in the condition of any of the markets we sell products into. The BC and Japanese markets remained stable, with the US lumber market continuing to be oversupplied. Twenty nine percent of the fourth quarter sales volume found its way into the export markets with a fairly even volume distribution between Japan and the US. Average pricing for the quarter was better than during the fourth quarter of 2001, largely as a result of a better species mix and stronger pricing in both the domestic and export markets. This was offset somewhat by slightly lower overall log sales volumes than the same period last year.

The performance at the Elk Falls lumbermill continues to improve. Everyone is focused on improving productivity and lumber recovery while attaining the highest value possible for the products. The mill has been operating steadily on two shifts throughout the quarter and anticipates being able to add a third shift about the middle of 2003. As a result, additional capital expenditures and maintenance spending have begun to prepare the mill for the addition of a third shift. As well, to meet growing market demand for dried lumber products, the mill will install three new kilns. This should improve sales realizations at the mill. Our objective for this mill is to demonstrate that it can be globally competitive and add value to TimberWest's fibre base. We believe that we are well on the way to accomplishing this.

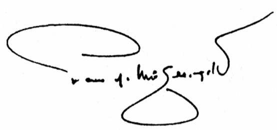
There were virtually no real estate sales for the quarter, but we did receive $2.0 million of proceeds on a sale of other surplus assets.

In terms of the broader industry issues, TimberWest is less directly affected by the softwood trade dispute than many in the sector and the Company is not currently directly involved in trade discussions. However, we continue to support the removal of federal restrictions on the export of logs from private land and have been working with governments at all levels to resolve this issue. With respect to the proposed provincial forest policy changes, it is our expectation that coastal industry reforms will be included in this spring's legislative agenda.

In closing, I am also pleased to report that on a total return basis, TimberWest outperformed its peers again for 2002. While our unit price has come under the same downward pressure as many of our competitors, we value the continued support we receive from our unitholders.

I look forward to leading the organization through another good year and meeting the expectations of our unitholders.

On behalf of the Board of Directors



Paul J. McElligott
President and Chief Executive Officer

Vancouver, British Columbia
January 30, 2003

# Management's Discussion and Analysis

### For the three and twelve months ended December 31, 2002

*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 fourth quarter of 2002. This discussion and analysis provides an overview of significant developments that have affected TimberWest's performance during the fourth quarter and year to date of 2002 relative to the fourth quarter and year to date of 2001, and that have affected the Company's financial position as at December 31, 2002, relative to December 31, 2001. 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 2001 Annual Report.*

## Quarterly Financial Highlights

TimberWest generated distributable cash[1] of $24.2 million, or basic and diluted distributable cash of $0.32 per weighted average Stapled Unit for the quarter ended December 31, 2002, compared to distributable cash of $16.8 million, or basic and diluted distributable cash of $0.26 per weighted average Stapled Unit for the same period in 2001. Earnings available for distribution[1] for the quarter, before provision for future income taxes, were $23.6 million, or $0.31 per basic and diluted weighted average Stapled Unit compared to $7.7 million, or $0.12 per basic and diluted weighted average Stapled Unit for the same quarter in 2001. Net sales for the fourth quarter were $124.9 million compared to net sales of $115.6 million reported for the fourth quarter of 2001. Operating earnings were $28.3 million for the fourth quarter of 2002 compared to $15.9 million for the same quarter in 2001. Earnings before interest, taxes, depreciation and amortization ("EBITDA")[1] for the quarter ended December 31, 2002, was $31.8 million, or $0.42 per basic and diluted weighted average Stapled Unit compared to $17.8 million, or $0.27 per basic and diluted weighted average Stapled Unit for the same period in 2001.

On October 1, 2002, TimberWest closed a public offering of $130.0 million aggregate principal amount of 7.0% unsecured senior debentures due October 1, 2007. The debentures were sold at a price of 99.552% of their principal amount. Net proceeds to TimberWest were $127.8 million. The Company used a portion of these proceeds to reduce indebtedness under its revolving credit facility and to retire its previously outstanding overdraft and non-revolving credit facilities, which provided financing for up to $10.0 million and $200.0 million, respectively.

During the quarter ended December 31, 2002, the Company purchased for cancellation $18.5 million aggregate principal amount of its 6.5% debentures at an average price equal to 100.4% of the principal amount.

## Year to Date Financial Highlights

For the twelve months ended December 31, 2002, TimberWest generated distributable cash of $90.1 million, or basic distributable cash of $1.21 per weighted average Stapled Unit and diluted distributable cash of $1.20 per weighted average Stapled Unit compared to distributable cash of $83.5 million, or basic and diluted distributable cash of $1.29 per weighted average Stapled Unit for 2001. Earnings available for distribution for the year, before provision for future income taxes, were $65.8 million, or $0.88 per basic and diluted weighted average Stapled Unit compared to $58.8 million, or $0.90 per basic and diluted weighted average Stapled Unit for 2001. Net sales for 2002 were $464.9 million compared to net sales of $461.9 million reported for 2001. Operating earnings were $99.3 million for the year ended December 31, 2002, compared to $87.2 million for the comparative period in 2001. EBITDA for the twelve months ended December 31, 2002, was $101.9 million, or $1.36 per basic and diluted weighted average Stapled Unit compared to $100.6 million, or $1.55 per basic and $1.54 per diluted weighted average Stapled Unit for 2001.

In February 2002, the Company completed a public equity offering of 11,190,650 Stapled Units at a price of $12.85 per Stapled Unit, for gross proceeds of $143.8 million. Net proceeds of the public equity offering of $136.1 million were used to reduce the Company's indebtedness under its non-revolving credit facility.

In the second quarter of 2002, a one-time, pre-tax restructuring charge of $9.8 million was recorded to cover costs associated with a strategic cost reduction program focused on streamlining operations and increasing operational efficiencies. This restructuring charge results in a direct reduction to distributable cash, earnings available for distribution before provision for future income taxes and EBITDA.

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[1] 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. A reconciliation between net earnings as determined in accordance with GAAP and distributable cash and earnings available for distribution is provided in the Consolidated Statements of Distributable Cash included as part of this interim report. A reconciliation between net earnings as determined in accordance with GAAP and EBITDA is provided in the supplemental information appended to this interim report.

In July 2002, the Company completed a significant real estate transaction, selling its 2,400-hectare Earle Creek property located on the Sunshine Coast of BC, for proceeds of $11.5 million.

On October 1, 2002, TimberWest closed a public offering of $130.0 million aggregate principal amount of 7.0% unsecured senior debentures due October 1, 2007. The debentures were sold at a price of 99.552% of their principal amount. Net proceeds to TimberWest were $127.8 million. The Company used a portion of these proceeds to reduce indebtedness under its revolving credit facility and to retire its previously outstanding overdraft and non-revolving credit facilities, which provided financing for up to $10.0 million and $200.0 million, respectively.

In connection with the debenture public offering, TimberWest took a one-time, pre-tax charge of $5.0 million during the third quarter of 2002 to account for the loss on a bond lock transaction entered into in anticipation of the refinancing.

During the quarter ended December 31, 2002, the Company purchased for cancellation $18.5 million aggregate principal amount of its 6.5% debentures at an average price equal to 100.4% of the principal amount.

### Subsequent Event

In anticipation of the maturation of the Company's 6.5% debentures in March 2003, TimberWest has been evaluating financing alternatives available to it for the refinancing of this obligation. On January 22, 2003, the Company accepted a commitment from a Canadian bank to provide an unsecured, revolving 364-day credit facility in the amount of $40.0 million. The facility is expected to close prior to March 3, 2003. Under this facility, funds are available to the Company in both Canadian and US dollars by way of adjusted prime rate-based loans and Canadian dollar bankers acceptances. The Company expects that this facility will provide the liquidity and resources necessary for the debenture retirement and, going forward, will provide an additional financial resource and increased liquidity to the Company.

### Cash Distributions

On January 30, 2003, TimberWest announced a distribution of $0.269 per Stapled Unit, payable April 15, 2003, to unitholders of record on April 1, 2003. During the year ended December 31, 2002, TimberWest distributed $78.9 million or $1.08 per Stapled Unit to its unitholders, consistent with the $1.08 per Stapled Unit distributed to unitholders in 2001. Since TimberWest's inception in July 1997, including the distribution paid on January 15, 2003, the Company has distributed $402.2 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 December 31, 2002, were $103.3 million, up 3% from log sales of $100.5 million for the quarter ended December 31, 2001. This increase is primarily the result of an overall increase of 5% in log sales realizations for the fourth quarter of 2002 compared to the same period in 2001, averaging $113 per $m^3$ in 2002 compared to $108 per $m^3$ in 2001. Increases were recorded for both domestic and export realizations in the current quarter as a result of a higher value mix of species in the sales program compared to the same period in 2001. The increase in sales realizations was partially offset by a 2% decrease in the volume of logs sold, down to 911.2 thousand $m^3$ compared with 927.7 thousand $m^3$ for the fourth quarter of 2001, with export sales dropping to 29% of the volume sold in the quarter from 34% of the volume sold in the comparative period for 2001.

Log sales for the year ended December 31, 2002, were $378.2 million or 81% of total sales compared to $378.4 million or 82% of total sales for 2001. This result reflects both log shipments and average log sales realizations for 2002 that were equivalent to those in 2001. Log shipments for 2002 were 3,416.5 thousand $m^3$ compared to 3,391.1 thousand $m^3$ in 2001. Though the overall sales volume was stable, the Company's efforts at market expansion and diversification resulted in a 29% increase in the volume of sales to the US West Coast, as well as a 3% increase in the volume of export sales to Asia. The increases into these markets were offset by a 7% decrease in domestic sales volumes. Average realizations on 2002 log sales were $111 per $m^3$, in line with the average realizations of $112 per $m^3$ in 2001. Though realizations on domestic sales in 2002 stabilized at $94 per $m^3$, the same as in 2001, average export sales realizations were down 7% from the prior year, to $135 per $m^3$. This decline is primarily attributable to price weakness on fir, offset in part by some strengthening in hembal pricing.

TimberWest's operating earnings from logging for the fourth quarter of 2002 averaged 29% of log sales, up from 27% of log sales for the comparative period in 2001. The positive effects of higher log sales realizations noted above more than offset higher unit logging production costs for the quarter, which increased to $73 per $m^3$, up from $72 per $m^3$ for 2001. The increase in production costs is primarily attributed to a moderate increase in production on the Company's higher-cost Crown tenures during the quarter and an increase in stumpage rates. Despite only a 13% increase in volume harvested from Crown tenures, stumpage charges increased by 118% or $4.2 million over the comparative quarter in 2001.

Operating earnings from logging as a percentage of log sales averaged 29% in 2002, comparable to 30% for 2001. The Company's average logging production cost for 2002 of $73 per $m^3$ was $1 per $m^3$ lower than the average of $74 per $m^3$ for the prior year. Though appearing negligible, this decrease reflects the net effect of several significant items. Most notable are the results of the Company's efforts to reduce costs and increase productivity through its 2002 strategic cost reduction initiatives – initiatives that delivered costs savings of $17.5 million or $4.90 per $m^3$ in 2002 against the Company's target of $4.50 per $m^3$ – including operations rationalization, increased mechanization of the harvest process and the use of lower-cost harvest techniques. Unfortunately, much of this benefit was offset by an increase in stumpage charges. Despite a 14% decrease in harvest volumes from Crown tenures over the prior year, 2002 stumpage payments to the Province of BC increased by 80% to $24.3 million. The Company was able to mitigate the impact of increased stumpage rates by shifting a greater proportion of its harvest from public lands to lower-cost private lands. In addition, favorable weather conditions allowed for increased road building activity during the year – while adding to overall current year costs, this activity positions the Company well for the 2003 harvest.

Lumber sales for the quarter ended December 31, 2002, of $18.2 million were ahead of sales of $11.5 million for the comparative quarter in 2001. This improvement reflects a combination of improved lumber sales realizations for the quarter, rising to $557 per mfbm from $454 per mfbm in 2001, and the sale of 32.6 million board feet of lumber during the quarter, representing a 28% increase over the volume sold in the fourth quarter of 2001.

Lumber sales for the year ended December 31, 2002, were $58.0 million or 12% of total Company revenues. This is comparable to lumber sales of $60.5 million, or 13% of total revenues for fiscal 2001, with the 4% decrease reflecting the sale in 2001 of $9.5 million of inventory remaining from the Cowichan lumbermill. Current year lumber sales are entirely attributable to production from the Elk Falls lumbermill, increasing 14% over sales of $51.0 million from this mill in 2001. This increase in sales can be attributed to an increase in volume sold, up 5% to 115.3 million board feet in 2002 from 109.8 million board feet in 2001, and to year-over-year strengthening in lumber sales realizations, which averaged $503 per mfbm in 2002, up 8% from $465 per mfbm for 2001. The new management team in place at the Elk Falls lumbermill was charged with improving productivity and lumber recovery while attaining the highest value possible for lumber products, and continued the focus on improving operating efficiencies throughout the fourth quarter of 2002.

There were no significant real estate sales transactions in the fourth quarter of 2002 compared to revenues of $1.2 million from the sale of five properties in the fourth quarter of 2001. However, during the fourth quarter of 2002, the Company collected $2.0 million in partial settlement of a long-term receivable on the sale of other surplus assets. Overall real estate activity for 2002, with sales of $16.5 million and operating earnings of $2.7 million, came in ahead of the $11.2 million in sales and $1.5 million in operating earnings reported for 2001, primarily due to the sale of TimberWest's Earle Creek property, a 2,400 hectare parcel of land located on the Sunshine Coast of BC, during the third quarter of 2002 for proceeds of $11.5 million.

### Financial Position

Current assets experienced a year-over-year increase of $10.7 million to $102.3 million as at December 31, 2002, up 12% from $91.6 million as at December 31, 2001. This increase can be attributed to an increase in inventories to $67.3 million at December 31, 2002, compared to inventories of $54.2 million as at December 31, 2001. Log inventories of $57.0 million at the end of 2002 were $8.5 million higher than log inventories of $48.5 million at the end of 2001, reflecting both increased volumes and a higher value species mix at the end of 2002 compared to the previous year. Favorable weather conditions facilitated harvesting at higher elevations throughout the latter part of 2002 – under traditional weather patterns, characterized by heavy snow pack at these elevations, this would not have been possible. Lumber inventories of $8.5 million at December 31, 2002, were $4.4 million higher than lumber inventories at December 31, 2001, reflecting higher volumes due to increased productivity at the Elk Falls lumbermill and a higher proportion of high-value Douglas fir product in 2002 year end inventory. The increase in the inventory component of current assets was offset in part by a $5.1 million decrease in trade accounts receivable to $27.0 million as at December 31, 2002, reflecting the Company's success with efforts to manage this element of working capital.

Capital assets of $1,355.6 million as at December 31, 2002, were $13.5 million lower than at this time in the prior year. This reduction was primarily the result of the current year provision for depreciation, depletion and amortization of $11.5 million and the sale of capital assets for proceeds of $17.5 million, partially offset by $11.5 million in maintenance capital expenditures during the current year.

There was a net decrease of $6.1 million in other assets to $20.4 million as at December 31, 2002, compared to $26.5 million at the end of the prior year. Components contributing to the net decrease in other assets include a decrease in prepaid pension benefits of $1.8 million, a decrease in deferred debt issue costs of $2.0 million and a decrease in the receivable on sale of assets of $2.0 million.

Current liabilities at the end of 2002 were $173.0 million, down $89.2 million from $262.2 million as at December 31, 2001. This decrease can be attributed to several factors, most notably the decrease in current credit facilities outstanding by $203.6 million, reflecting the repayment and retirement of the Company's obligations under an overdraft facility for $10.0 million and a non-revolving credit facility for $200.0 million during the year with proceeds from the public equity offering and the debenture public offering.

At December 31, 2002, current liabilities include $106.5 million aggregate principal amount of 6.5% debentures that mature on March 3, 2003. During 2002, the Company purchased for cancellation $18.5 million aggregate principal amount of these debentures at an average price of 100.4% of the principal amount. In anticipation of the maturation of these debentures, the Company has been evaluating financing alternatives available to it for the refinancing of this obligation. As disclosed in note 10 to the accompanying interim consolidated financial statements, on January 22, 2003, the Company accepted a commitment from a Canadian bank to provide an unsecured, revolving 364-day credit facility in the amount of $40.0 million. The Company expects that this facility will provide the liquidity and resources necessary for the debenture retirement and, going forward, will provide an additional financial resource and increased liquidity to the Company.

Accounts payable and accrued liabilities increased $4.8 million to $46.0 million at December 31, 2002, an increase primarily attributable to amounts owing in relation to the restructuring undertaken during the current year. The distribution payable at December 31, 2002, of $20.5 million is $3.1 million greater than the distribution payable at December 31, 2001, and reflects the increased number of Stapled Units outstanding as a result of the public equity offering completed during the year.

As at December 31, 2002, long-term liabilities include an unsecured revolving facility for $125.0 million. This facility, undrawn at December 31, 2002, had been drawn by $50.0 million as at December 31, 2001. Long-term liabilities as at December 31, 2002, also include $130.0 million aggregate principal amount of 7.0% unsecured senior debentures issued during the year. In addition, long-term liabilities as at December 31, 2002, include a silviculture liability of $4.8 million, a $23.7 million liability relating to non-pension post retirement benefits, and a future income tax liability of $232.0 million. These liabilities have not changed materially from balances reported at December 31, 2001.

At December 31, 2002, unitholders' equity was $914.8 million, $126.3 million higher than as at December 31, 2001. This increase is due to a $142.1 million increase in Stapled Units outstanding, offset by a $15.8 million decrease in retained earnings during the year. The increase in Stapled Units is the result of the issuance of 11,190,650 Stapled Units through the public equity offering completed during the year for gross proceeds of $143.8 million, net of issuance costs of $4.9 million, and to the issuance of Stapled Units on the exercise of Stapled Unit options for proceeds of $3.2 million. The decrease in retained earnings of $15.8 million can be attributed to 2002 distributions on Series A Subordinate Notes held by unitholders of $81.8 million (net of the $26.7 million tax benefit thereon) exceeding 2002 net earnings of $39.3 million (see note 7).

During the quarter ended December 31, 2002, options to purchase 8,776 Stapled Units were exercised for proceeds of $0.1 million, no options were granted, and 27,940 options were cancelled. In the twelve months ended December 31, 2002, options to purchase 311,291 Stapled Units were exercised for proceeds of $3.2 million, options to purchase 55,200 Stapled Units were granted and 141,296 options were cancelled.

### Cash Flow and Liquidity

Net cash generated from operations before changes in non-cash working capital for the three months ended December 31, 2002, was $27.5 million or $0.36 per basic and diluted weighted average Stapled Unit compared to $12.6 million or $0.19 per basic and diluted weighted average Stapled Unit for the corresponding quarter in 2001. For the year ended December 31, 2002, net cash generated from operations before changes in non-cash working capital was $78.0 million or $1.04 per basic and diluted weighted average Stapled Unit compared to $74.4 million or $1.14 per basic and diluted weighted average Stapled Unit for 2001. During the fourth quarter of 2002 non-cash working capital increased by $12.6 million compared to a $19.3 million increase reported for the same period in 2001. The fourth quarter increases reflect a rise in inventories and accounts receivable, plus a drop in accounts payable and accrued liabilities to seasonal levels. For 2002, non-cash working capital increased by $3.8 million compared to a $13.8 million increase reported for 2001. The small increase in the current year is the net effect of the year-over-year increase in inventories and accounts payable and accrued liabilities, offset in part by a year-over-year decrease in accounts receivable.

Net cash used for financing activities during the fourth quarter of 2002 was $10.7 million compared to $36.0 million used for financing activities in the comparative period of 2001. In the fourth quarter of 2002, the Company paid $20.6 million as its regular quarterly distribution to unitholders, compared to $17.5 million paid in 2001. The $3.1 million year-over-year increase in distributions paid to unitholders reflects an increased number of Stapled Units outstanding as a result of the public equity offering completed in the first quarter of 2002. During the fourth quarter of 2002, the Company closed the public offering of $130.0 million aggregate principal amount of 7% debentures, with net proceeds to the Company of $127.8 million after costs of $1.6 million. Both the discount and the costs associated with this public offering have been deferred and are being amortized against income over the life of these debentures. The Company used a portion of the proceeds of this public offering to purchase for cancellation $18.5 million aggregate principal amount of the 6.5% debentures maturing on March 3, 2003. A further portion of the proceeds was used to settle financial obligations on the Company's previously outstanding non-revolving credit facility of $63.0 million. In addition, $36.5 million of the proceeds were used to pay down drawings on the Company's revolving credit facility. Fourth quarter 2001 financing activities included the use of cash from operating activities to reduce drawings on its revolving credit facility by $22.9 million.

Net cash used for financing activities during fiscal 2002 was $83.9 million, an increase of $15.7 million over 2001. This increase reflects the net effect of a number of financing transactions undertaken during 2002, including both a public equity offering and a debenture public offering, resulting in a repositioning of the Company's capital structure. Distributions paid to unitholders increased to $78.9 million for 2002, up $9.0 million from distributions paid in 2001 due to an increase in Stapled Units outstanding during the year as the result of the public equity offering for 11,190,650 Stapled Units completed in February 2002 with net cash proceeds to the Company of $136.1 million. During the year, the Company issued an additional 311,291 Stapled Units for net proceeds of $3.2 million on the exercise of Stapled Unit options. In October 2002, the Company closed a public offering of $130.0 million aggregate principal amount 7.0% debentures, with net proceeds to the Company of $127.8 million after costs of $1.6 million. During the year, the Company used funding provided through the public equity offering and the debenture equity offering to settle financial obligations on previously outstanding overdraft and non-revolving credit facilities, which provided for up to $10.0 million and $200.0 million in financing, respectively. In addition, $50.0 million of this funding was used to pay down drawings on the Company's revolving credit facility outstanding at December 31, 2001, and a portion of this funding was used to purchase for cancellation $18.5 million aggregate principal amount of the 6.5% debentures maturing on March 3, 2003.

Net cash used in investing activities during the fourth quarter of 2002 was $3.2 million compared to net cash provided by investing activities of $4.1 million for the same quarter of 2001. This year-over-year variance is due to higher maintenance capital spending and fewer real estate sales in the fourth quarter of 2002 relative to the same period in 2001. In addition, during the fourth quarter of 2002, the Company collected $2.0 million in partial settlement of a long-term receivable on the sale of other surplus assets. For the year ended December 31, 2002, net cash provided by investing activities was $10.7 million compared to $7.6 million for the comparative period in 2001. This variance from the prior year can be attributed to greater proceeds received on sales of higher use properties in 2002, including proceeds of $11.5 million from the sale of Earle Creek, offset by higher maintenance capital expenditures compared to the same period for 2001.

As at December 31, 2002, TimberWest's consolidated debt was $236.5 million compared to a balance of $378.6 million as at December 31, 2001. The Company's consolidated debt-to-total capitalization ratio was 21:79 as at December 31, 2002, compared to 32:68 as at December 31, 2001. The current year's favorable position can be attributed to the use of net proceeds of $136.1 million from the public equity offering completed early in 2002 to pay down the Company's non-revolving credit facility. Total debt facilities available to the Company as at December 31, 2002, were $361.5 million, comprised of $106.5 million of 6.5% debentures maturing on March 3, 2003, $125.0 million available under the revolving credit facility maturing on June 4, 2004, and $130.0 million of 7.0% debentures maturing on October 1, 2007.

## Pension Valuation

In recent years, TimberWest has had the benefit of being on a contribution holiday with respect to its pension plans. The Company's triennial valuation of its pension obligation is scheduled for December 31, 2003. This valuation will determine the provision for TimberWest's future pension expense. Despite weak performance of the capital markets over the valuation period, TimberWest has no material valuation concerns at this time. TimberWest will remain on a contribution holiday for 2003, though it is probable that some cash contributions may be required commencing 2004.

## Normal Course Issuer Bid

In November 2002, TimberWest announced its intention to affect a normal course issuer bid to purchase up to 3,809,201 Stapled Units, representing approximately 5% of the Company's 76,184,032 Stapled Units issued and outstanding on November 5, 2002, through the facilities of the Toronto Stock Exchange at the market price at the time of purchase. The bid will terminate on the earlier of November 6, 2003, being the expiry of 12 months from the commencement of the bid, and the date upon which TimberWest has acquired the maximum number of Stapled Units permitted under the bid. As at December 31, 2002, TimberWest had not repurchased any of its Stapled Units under the bid.

## Final Results from Normal Course Issuer Bid

Pursuant to a normal course issuer bid that expired at midnight on October 28, 2002, TimberWest was in a position to repurchase up to 3,252,350 of the Company's issued and outstanding Stapled Units through the facilities of the Toronto Stock Exchange. TimberWest did not repurchase any of its Stapled Units through this bid.

## Outlook

Looking ahead to 2003, economic reports indicate that the Japanese economy will remain largely unchanged from where it is today. The Japanese lumber market remains stable with year-over-year housing starts anticipated to be down 3% to 4%. The recent strengthening of the Euro against the US dollar and the Japanese Yen has resulted in increased interest in the North American supply of wood products. This trend should continue to support volumes and prices for TimberWest's log and lumber sales into Japan in the near term.

The US economy is proving more difficult to forecast with leading indicators continuing to provide mixed messages. Economic reports, however, do indicate a growing shift in sentiment towards a recovery in 2003, with an emerging consensus among economists signifying continuing optimism for the US housing market, with reports suggesting housing starts will remain strong at an annual rate of approximately 1.6 million. However, until the lumber oversupply in this market diminishes, TimberWest is not anticipating product price improvement for its log sales into this market. The Company anticipates consistent sales performance in this market in the near term.

For 2003, the domestic log market, which is dependent on both Japanese and US lumber markets, is showing stability in whitewood pricing, however, industry analysts continue to be concerned that lumber duties on sales into the US will negatively impact cedar log pricing.

On the cost side of the business, TimberWest has set a target of reducing timberland operation production costs by another \$4.50 per $m^3$ in 2003. On the heels of a successful cost reduction program in 2002, the Company is well positioned to improve its margins and therefore, its cash flow.

Some of this anticipated additional cash flow is expected to be reinvested in the operations, particularly the Elk Falls lumbermill where productivity and lumber sales improvements have been achieved during the back half of 2002. The Company anticipates spending approximately \$10.0 million at this mill during 2003, however, given the strong performance at this operation, the Company expects that the mill will generate sufficient cash flow in 2003 to fully fund these capital expenditures. The Company remains hopeful that meaningful public policy change on Crown tenure in BC will be implemented in the spring sitting of the BC legislature. However, the Company does not expect that any public policy change will have a material impact on TimberWest's results for 2003. Consequently, the Company does not anticipate any relief from stumpage charges on harvests from Crown lands in 2003 and, in fact, expects stumpage to remain at current levels.

The Company expects real estate sales to decline to more normal levels in 2003 and to be evenly earned throughout the year.

TimberWest's primary business strategy continues to be the pursuit of operations excellence with its existing basket of assets. As the Company is successful in achieving sustainable reductions in unit costs, management will consider exploring other ways to complement the asset base to increase value.

In summary, the Company expects to realize continued improvement in its financial results by continuing with its operations excellence strategy and remains confident that the Company will be able to meet unitholder expectations for 2003.

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

## Consolidated Statements of Distributable Cash

*(in millions of dollars, except per Stapled Unit amounts)*
*Unaudited*

| | Three months ended December 31 | | Twelve months ended December 31 | |
|---|---|---|---|---|
| | **2002** | 2001 | **2002** | 2001 |
| Net earnings | **$ 16.9** | $ 1.5 | **$ 39.3** | $ 44.6 |
| Income tax benefit related to distributions | **9.2** | 6.0 | **26.7** | 29.4 |
| Earnings available for distribution | **26.1** | 7.5 | **66.0** | 74.0 |
| Future income tax expense (recovery) | **(2.5)** | 0.2 | **(0.2)** | (15.2) |
| Earnings available for distribution before provision for future income tax expense (recovery) | **23.6** | 7.7 | **65.8** | 58.8 |
| Add (deduct): | | | | |
| Depreciation, depletion and amortization | **3.9** | 4.7 | **15.2** | 17.0 |
| Proceeds from sale of capital assets | **2.2** | 2.2 | **19.4** | 12.4 |
| Gain on sale of capital assets | **(0.3)** | (0.1) | **(3.9)** | (2.5) |
| Maintenance capital expenditures | **(5.5)** | (2.8) | **(11.5)** | (7.3) |
| Other non-cash items | **0.3** | 5.1 | **5.1** | 5.1 |
| | **0.6** | 9.1 | **24.3** | 24.7 |
| **Distributable cash** | **$ 24.2** | $ 16.8 | **$ 90.1** | $ 83.5 |
| ***Basic distributable cash per weighted average Stapled Unit*** | ***$ 0.32*** | *$ 0.26* | ***$ 1.21*** | *$ 1.29* |
| ***Diluted distributable cash per weighted average Stapled Unit*** | ***$ 0.32*** | *$ 0.26* | ***$ 1.20*** | *$ 1.29* |
| ***Cash distributions paid per Stapled Unit*** | ***$ 0.27*** | *$ 0.27* | ***$ 1.08*** | *$ 1.08* |
| *Basic weighted average number of Stapled Units outstanding for the period (000's)* | ***76,187*** | *65,035* | ***74,686*** | *64,984* |
| *Diluted weighted average number of Stapled Units outstanding for the period (000's)* | ***76,278*** | *65,207* | ***74,808*** | *65,128* |
| *Stapled Units outstanding at the end of the period (000's)* | ***76,193*** | *64,691* | ***76,193*** | *64,691* |

## Quarterly Comparison of Distributable Cash

*Unaudited*

| | **2002** | 2001 | 2000 | 1999 | 1998 |
|---|---|---|---|---|---|
| **Distributable Cash** *(in millions of dollars)* | | | | | |
| First | **$ 21.2** | $ 25.9 | $ 28.4 | $ 24.5 | $ 13.2 |
| Second | **10.6** | 26.7 | 28.2 | 25.1 | 24.0 |
| Third | **34.1** | 14.1 | 14.1 | 14.0 | 11.5 |
| Fourth | **24.2** | 16.8 | 18.5 | 19.7 | 19.6 |
| | **$ 90.1** | $ 83.5 | $ 89.2 | $ 83.3 | $ 68.3 |
| **Distributable Cash per Stapled Unit** *(in dollars)* | | | | | |
| First | **$ 0.30** | $ 0.40 | $ 0.41 | $ 0.36 | $ 0.19 |
| Second | **0.14** | 0.41 | 0.42 | 0.36 | 0.34 |
| Third | **0.45** | 0.22 | 0.22 | 0.20 | 0.17 |
| Fourth | **0.32** | 0.26 | 0.29 | 0.28 | 0.28 |
| | **$ 1.21** | $ 1.29 | $ 1.34 | $ 1.20 | $ 0.98 |

*See accompanying notes to unaudited interim consolidated financial statements.*

## Consolidated Balance Sheets

*(in millions of dollars)*

| | As at December 31, 2002 *Unaudited* | As at December 31, 2001 |
|---|---|---|
| **Assets** | | |
| Current assets: | | |
| Cash | **$ 1.0** | $ - |
| Accounts receivable | **27.0** | 32.1 |
| Inventories | **67.3** | 54.2 |
| Prepaid expenses and other current assets | **2.9** | 2.3 |
| Future income taxes | **4.1** | 3.0 |
| | **102.3** | 91.6 |
| Capital assets, net | **1,355.6** | 1,369.1 |
| Other assets | **20.4** | 26.5 |
| | **$ 1,478.3** | $ 1,487.2 |
| **Liabilities and Unitholders' Equity** | | |
| Current liabilities: | | |
| Debentures (note 3) | **$ 106.5** | $ - |
| Overdraft facility (note 4) | **-** | 3.6 |
| Non-revolving credit facility (note 4) | **-** | 200.0 |
| Accounts payable and accrued liabilities | **46.0** | 41.2 |
| Distribution payable | **20.5** | 17.4 |
| | **173.0** | 262.2 |
| Revolving credit facility (note 4) | **-** | 50.0 |
| Debentures (note 3) | **130.0** | 125.0 |
| Long-term silviculture liability | **4.8** | 4.9 |
| Non-pension post-retirement benefits | **23.7** | 22.7 |
| Future income taxes | **232.0** | 233.9 |
| | **563.5** | 698.7 |
| Unitholders' equity: | | |
| Stapled Units, consisting of Series A Subordinate Notes, preferred shares and common shares (note 5) | **870.2** | 728.1 |
| Retained earnings | **44.6** | 60.4 |
| | **914.8** | 788.5 |
| | **$ 1,478.3** | $ 1,487.2 |

Subsequent event (note 10)

*See accompanying notes to unaudited interim consolidated financial statements.*

On behalf of the Board of Directors:

Paul J. McElligott
Director

V. Edward Daughney
Director

## Consolidated Statements of Cash Flows

*(in millions of dollars)*
*Unaudited*

| | Three months ended December 31 | | Twelve months ended December 31 | |
|---|---|---|---|---|
| | **2002** | 2001 | **2002** | 2001 |
| **Cash provided by (used in):** | | | | |
| **Operating activities:** | | | | |
| Earnings before income taxes | **$ 23.6** | $ 7.9 | **$ 66.4** | $ 60.2 |
| Cash income taxes (note 6) | **-** | (0.2) | **(0.6)** | (1.4) |
| | **23.6** | 7.7 | **65.8** | 58.8 |
| Items not involving cash: | | | | |
| Depreciation, depletion and amortization | **3.9** | 4.7 | **15.2** | 17.0 |
| Gain on sale of capital assets | **(0.3)** | (0.1) | **(3.9)** | (2.5) |
| Other non-cash items | **0.3** | 0.3 | **0.9** | 1.1 |
| | **27.5** | 12.6 | **78.0** | 74.4 |
| Changes in non-cash working capital: | | | | |
| Accounts receivable | **(4.9)** | 0.5 | **5.1** | (5.6) |
| Inventories | **(5.5)** | 16.8 | **(13.1)** | 1.0 |
| Prepaid expenses and other working capital | **1.0** | 2.2 | **(0.6)** | (1.5) |
| Accounts payable and accrued liabilities | **(3.2)** | (0.2) | **4.8** | (7.7) |
| | **14.9** | 31.9 | **74.2** | 60.6 |
| **Financing activities:** | | | | |
| Distributions paid to unitholders | **(20.6)** | (17.5) | **(78.9)** | (69.9) |
| Issuance of Stapled Units, net | **-** | - | **136.1** | - |
| Issuance of Stapled Units on exercise of options | **0.1** | 1.5 | **3.2** | 3.4 |
| Issuance of 7% debentures | **129.4** | - | **129.4** | - |
| Purchase of 6.5% debentures for cancellation | **(18.5)** | - | **(18.5)** | - |
| Overdraft facility | **-** | 3.6 | **(3.6)** | (3.7) |
| Non-revolving credit facility | **(63.0)** | - | **(200.0)** | 200.0 |
| Revolving credit facility | **(36.5)** | (22.9) | **(50.0)** | 50.0 |
| Deferred debt issue costs | **(1.6)** | (0.7) | **(1.6)** | (5.2) |
| Operating loan | **-** | - | **-** | (41.0) |
| Term loan | **-** | - | **-** | (201.8) |
| | **(10.7)** | (36.0) | **(83.9)** | (68.2) |
| **Investing activities:** | | | | |
| Proceeds from sale of capital assets | **0.3** | 2.2 | **17.5** | 12.4 |
| Maintenance capital expenditures | **(5.5)** | (2.8) | **(11.5)** | (7.3) |
| Decrease in other assets | **2.0** | 4.7 | **4.7** | 2.5 |
| | **(3.2)** | 4.1 | **10.7** | 7.6 |
| Increase in cash | **1.0** | - | **1.0** | - |
| Cash, beginning of period | **-** | - | **-** | - |
| Cash, end of period | **$ 1.0** | $ - | **$ 1.0** | $ - |
| **Supplemental information:** | | | | |
| Interest paid | **$ 0.5** | $ 2.9 | **$ 17.9** | $ 23.4 |
| Income taxes paid | **$ 0.2** | $ 0.2 | **$ 0.9** | $ 1.2 |
| Purchase of Stapled Units for return to treasury | **$ -** | $ 6.7 | **$ -** | $ 6.7 |

*See accompanying notes to unaudited interim consolidated financial statements.*

## Consolidated Statements of Operations

*(in millions of dollars)*
*Unaudited*

| | Three months ended December 31 | | Twelve months ended December 31 | |
|---|---|---|---|---|
| | **2002** | 2001 | **2002** | 2001 |
| Net sales | $ **124.9** | $ 115.6 | $ **464.9** | $ 461.9 |
| Operating costs and expenses: | | | | |
| Cost of products sold | **89.7** | 93.4 | **340.1** | 346.3 |
| Depreciation, depletion and amortization | **3.2** | 2.9 | **11.5** | 13.4 |
| Selling, administrative and other | **3.7** | 3.4 | **14.0** | 15.0 |
| | **96.6** | 99.7 | **365.6** | 374.7 |
| Operating earnings | **28.3** | 15.9 | **99.3** | 87.2 |
| Interest expense | **4.3** | 5.2 | **15.3** | 23.4 |
| Amortization of deferred financing costs | **0.7** | 1.8 | **3.7** | 3.6 |
| Loss on bond lock transaction (note 3) | **-** | - | **5.0** | - |
| Restructuring charge (note 8) | **-** | - | **9.8** | - |
| Other (income) expense, net | **(0.3)** | 1.0 | **(0.9)** | - |
| | **4.7** | 8.0 | **32.9** | 27.0 |
| Earnings before income taxes | **23.6** | 7.9 | **66.4** | 60.2 |
| Income tax expense (note 6) | **6.7** | 6.4 | **27.1** | 15.6 |
| Net earnings for the period | $ **16.9** | $ 1.5 | $ **39.3** | $ 44.6 |
| *Basic and diluted earnings (loss) per weighted average common share (note 7)* | ***$ 0.07*** | *$ (0.15)* | ***$ (0.21)*** | *$ 0.06* |

## Consolidated Statements of Unitholders' Equity

*(in millions of dollars)*
*Unaudited*

| | Stapled Units | | Retained earnings | Total unitholders' equity |
|---|---|---|---|---|
| | Number | Amount | | |
| Balance, December 31, 2000 | 64,825,336 | $ 731.4 | $ 56.3 | $ 787.7 |
| Year ended December 31, 2001: | | | | |
| Issuance of Stapled Units on exercise of options | 386,666 | 3.4 | - | 3.4 |
| Purchase of Stapled Units for return to treasury | (521,135) | (6.7) | - | (6.7) |
| Net earnings | - | - | 44.6 | 44.6 |
| Interest on Series A Subordinate Notes | - | - | (69.9) | (69.9) |
| Income tax benefit thereon (note 6) | - | - | 29.4 | 29.4 |
| Balance, December 31, 2001 | 64,690,867 | 728.1 | 60.4 | 788.5 |
| **Year ended December 31, 2002:** | | | | |
| Issuance of Stapled Units, net (note 5) | **11,190,650** | **138.9** | **-** | **138.9** |
| Issuance of Stapled Units on exercise of options | **311,291** | **3.2** | **-** | **3.2** |
| Purchase of Stapled Units for return to treasury | **(20)** | **-** | - | **-** |
| Net earnings | **-** | **-** | **39.3** | **39.3** |
| Interest on Series A Subordinate Notes | **-** | **-** | **(81.8)** | **(81.8)** |
| Income tax benefit thereon (note 6) | **-** | **-** | **26.7** | **26.7** |
| Balance, December 31, 2002 | **76,192,788** | **$ 870.2** | **$ 44.6** | **$ 914.8** |

*See accompanying notes to unaudited interim consolidated financial statements.*

# Notes to Unaudited Interim Consolidated Financial Statements
**For the three and twelve months ended December 31, 2002**

*Financial figures presented in the tables that follow are in millions of dollars, except for amounts per Stapled Unit and components thereof.*

1. Significant Accounting Policies

These unaudited interim consolidated financial statements include the accounts of TimberWest Forest Corp. and its subsidiaries. Not all disclosures required by Canadian generally accepted accounting principles for annual financial statements are presented, and accordingly, these interim financial statements should be read in conjunction with the Company's most recent annual consolidated financial statements. These interim financial statements follow the same accounting policies and methods of application used in the Company's audited annual consolidated financial statements of December 31, 2001, except for those standards that have changed subsequent to that date, as detailed below. Certain figures for previous periods have been reclassified to conform with the current period's financial statement presentation.

2. Accounting Policy Change

*Stock-based Compensation*

Effective January 1, 2002, the Company adopted the new recommendations of the Canadian Institute of Chartered Accountants ("CICA") Handbook Section 3870 – *Stock-based Compensation and Other Stock-based Payments*. The new recommendations establish standards for the recognition, measurement, and disclosure of stock-based compensation and other stock-based payments made in exchange for goods and services provided by employees and non-employees. Section 3870 sets out a fair value based method of accounting that is required for certain, but not all, stock-based transactions. Section 3870 must be applied to all stock-based payments to non-employees, and to employee awards that are direct awards of shares, that call for settlement in cash or other assets, or are share appreciation rights that call for settlement by the issuance of equity instruments. However, the new standard permits the Company to continue its existing policy that no compensation cost is recorded on the grant of Stapled Unit options to employees. Consideration paid by employees on the exercise of Stapled Unit options is recorded as an addition to Stapled Units within unitholders' equity. Section 3870 also requires additional disclosures for options granted to employees, including disclosure of pro forma earnings and pro forma earnings per share as if the fair value based accounting method had been used to account for employee stock options (see note 9).

3. Debentures

| | Maturity | **As at December 31, 2002** | As at December 31, 2001 |
|---|---|---|---|
| 6.5% debentures | March 3, 2003 | **$ 106.5** | $ 125.0 |
| 7.0% debentures | October 1, 2007 | **130.0** | – |
| | | **236.5** | 125.0 |
| Less: Due within one year | | **(106.5)** | – |
| | | **$ 130.0** | $ 125.0 |

On October 1, 2002, the Company closed a public offering of $130.0 million aggregate principal amount of 7.0% unsecured senior debentures due October 1, 2007. The debentures were sold at 99.552% of their principal amount, with net proceeds to the Company of $127.8 million.

In anticipation of the 7.0% debenture public offering, the Company entered into a bond lock transaction to protect the Company against rising interest rates over the period of refinancing. On closing out of this transaction, due to a decline in interest rates, the Company realized a $5.0 million loss and has taken a one-time, pre-tax charge of $5.0 million against earnings for the year ended December 31, 2002.

During the fourth quarter of 2002 the Company purchased for cancellation $18.5 million aggregate principal amount of its 6.5% debentures at an average price equal to 100.4% of the principal amount. The Company's 6.5% debentures mature on March 3, 2003 and have therefore been classified as current liabilities at December 31, 2002.

# Notes to Unaudited Interim Consolidated Financial Statements
**For the three and twelve months ended December 31, 2002**

4. Credit Facilities

During the quarter ended March 31, 2002, the Company made a payment of $137.0 million on its non-revolving credit facility, reducing this liability from $200.0 million to $63.0 million. This payment resulted in a direct reduction in funds available to the Company through this facility, from $200.0 million to $63.0 million.

During the quarter ended September 30, 2002, the Company closed out its $10.0 million overdraft facility.

On October 1, 2002, the Company closed a public offering of debentures (see note 3) and used the net proceeds to pay down indebtedness under existing credit facilities. A payment of $63.0 million was made on the Company's non-revolving credit facility, effectively closing out and eliminating funding available to the Company through this facility. A payment of $38.0 million was also made to pay the balance outstanding on the Company's revolving credit facility.

As at December 31, 2002, credit facilities available to the Company consisted of the unsecured revolving facility for $125.0 million. As at December 31, 2002, the Company had not drawn on this facility.

5. Stapled Units

In February 2002, the Company completed a public equity offering of 11,190,650 Stapled Units at a price of $12.85 per Stapled Unit for gross proceeds of $143.8 million. Net cash proceeds received were $136.1 million after costs of $7.7 million (net costs of $4.9 million after accounting for a future income tax benefit of $2.8 million).

During the three months ended December 31, 2002, the Company issued 8,776 Stapled Units on the exercise of stock options and purchased 20 Stapled Units for return to treasury. During the year ended December 31, 2002, the Company issued 311,291 Stapled Units on the exercise of stock options and purchased 20 Stapled Units for return to treasury.

6. Income Taxes

Income tax expense (recovery) consists of:

| | Three months ended December 31 | | Twelve months ended December 31 | |
|---|---|---|---|---|
| | **2002** | 2001 | **2002** | 2001 |
| Current income tax expense: | | | | |
| Large corporation tax | **$ -** | $ 0.2 | **$ 0.6** | $ 1.4 |
| Income tax benefit on interest on Series A Subordinate Notes charged directly to distributions | **9.2** | 6.0 | **26.7** | 29.4 |
| | **9.2** | 6.2 | **27.3** | 30.8 |
| Future income tax (recovery) expense | **(2.5)** | 0.2 | **(0.2)** | (15.2) |
| | **$ 6.7** | $ 6.4 | **$ 27.1** | $ 15.6 |

During the year ended December 31, 2001, the provincial government of British Columbia announced that it was lowering the provincial corporate tax rate by 3%. This tax rate change resulted in a non-cash future income tax recovery of $19.2 million for year ended December 31, 2001, and a corresponding decrease in the future income tax liability as at December 31, 2001.

# Notes to Unaudited Interim Consolidated Financial Statements
**For the three and twelve months ended December 31, 2002**

7. Earnings Available for Distribution per Stapled Unit and Components Thereof

| | Three months ended December 31 | | Twelve months ended December 31 | |
|---|---|---|---|---|
| | **2002** | 2001 | **2002** | 2001 |
| **Net Earnings:** | | | | |
| Net earnings | **$ 16.9** | $ 1.5 | **$ 39.3** | $ 44.6 |
| Less: Distributions on Series A Subordinate Notes | **(20.5)** | (17.5) | **(81.8)** | (69.9) |
| Tax benefit thereon | **9.2** | 6.0 | **26.7** | 29.4 |
| | **(11.3)** | (11.5) | **(55.1)** | (40.5) |
| Earnings (loss) attributable to common shares | **5.6** | (10.0) | **(15.8)** | 4.1 |
| Earnings available for distribution attributable to Series A Subordinate Notes | **20.5** | 17.5 | **81.8** | 69.9 |
| Earnings available for distribution attributable to Stapled Units | **$ 26.1** | $ 7.5 | **$ 66.0** | $ 74.0 |
| **Weighted Average Number of Stapled Units:** | | | | |
| Basic weighted average number of Stapled Units | **76,187,355** | 65,034,706 | **74,686,050** | 64,984,389 |
| Incremental Stapled Units from potential exercise of options | **90,988** | 172,708 | **121,551** | 143,710 |
| Diluted weighted average number of Stapled Units | **76,278,343** | 65,207,414 | **74,807,601** | 65,128,099 |
| **Per Stapled Unit Amounts:** | | | | |
| Basic and diluted earnings (loss) per common share | **$ 0.07** | $ (0.15) | **$ (0.21)** | $ 0.06 |
| Basic and diluted earnings available for distribution per Series A Subordinate Note | **0.27** | 0.27 | **1.09** | 1.08 |
| Basic and diluted earnings available for distribution per Stapled Unit | **$ 0.34** | $ 0.12 | **$ 0.88** | $ 1.14 |

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

8. Restructuring Charge

During 2002, TimberWest implemented a strategic plan to enhance the performance of all businesses through reduced costs and improved productivity. As part of a company-wide cost reduction program a thorough examination of business processes was undertaken in an effort to streamline operations and increase efficiencies.

As a result of this review the Company recorded a one-time, pre-tax charge to earnings of $9.8 million in the second quarter of 2002 representing the expected costs of severance, early retirement programs and closure of facilities resulting from the restructuring.

# Notes to Unaudited Interim Consolidated Financial Statements
**For the three and twelve months ended December 31, 2002**

9. Stock-based Compensation Plans

Under the Company's Stapled Unit Option Plan established in 2000, 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. In November 2001, to facilitate the wind-up of the Company's Stapled Unit Incentive Plan, the Company introduced a supplement to the Stapled Unit Option Plan called the Distribution Equivalent Plan. Under this supplemental 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.

For the Stapled Unit Option Plan, the Company's policy is that no compensation cost is recorded on stock-based compensation awards granted to employees under this plan. Consideration paid by employees on the exercise of these options is recorded as an addition to Stapled Units. Accordingly, no compensation cost has been recognized in the Company's accounts for the Stapled Unit Option Plan. The compensation cost for the 55,200 Stapled Unit options granted under the Stapled Unit Option Plan between January 1, 2002, and December 31, 2002, determined based on their fair value at the grant date of the awards, consistent with the fair value method of accounting for stock-based compensation, is $95,000. As this amount would be amortized against income over the three-year vesting period of the underlying options, there would have been no adjustment to the Company's net income and earnings per common share reported for either the three or twelve month periods ended December 31, 2002. The fair value of each option grant was estimated at the grant date using the Black-Scholes option pricing model with the following average assumptions: distribution yield of 8.2%; expected volatility of 27.0%; risk-free interest rate of 5.7%; and expected option life of 5 years.

For awards granted under the supplemental Distribution Equivalent Plan, the Company applies the principles of the fair value based method of accounting for stock-based compensation. Awards are accrued on a basis equal to actual distributions paid on the Company's issued and outstanding Stapled Units and are charged to income as the underlying Stapled Unit options vest. For the three months ended December 31, 2002, $0.2 million has been accrued for awards granted under this plan relating to the October 2002 distribution paid to unitholders, and $0.2 million has been amortized against income for the quarter. For the year ended December 31, 2002, $1.1 million has been accrued for awards granted under this plan and $0.8 million of this amount has been amortized against income for the period.

During the quarter ended December 31, 2002, a total of 8,776 Stapled Unit options with an exercise price of $8.91 were exercised, no Stapled Unit options were granted, and a total of 27,940 options with exercise prices ranging from $12.84 to 13.03 were cancelled. For the twelve months ended December 31, 2002, a total of 311,291 Stapled Unit options with exercise prices ranging from $8.91 to $13.03 were exercised, a total of 55,200 Stapled Unit Options with exercise prices ranging from $12.79 to $13.41 exercisable for a period of five years from grant date were granted, and a total of 141,296 options with exercise prices ranging from $12.84 to $13.03 were cancelled.

10. Subsequent Event

On January 22, 2003, the Company accepted a commitment from a Canadian bank to provide an unsecured, revolving 364-day credit facility in the amount of $40.0 million. The facility is expected to close prior to March 3, 2003. Under this facility, funds are available to the Company in both Canadian and US dollars by way of adjusted prime rate-based loans and Canadian dollar bankers acceptances.

## Supplemental Information
*Unaudited*

| | Three months ended December 31 | | | | Twelve months ended December 31 | | | |
|---|---|---|---|---|---|---|---|---|
| | | **2002** | | 2001 | | **2002** | | 2001 |
| **Sales by Product** | | | | | | | | |
| *(in millions of dollars)* | | | | | | | | |
| Logs | **$** | **103.3** | $ | 100.5 | **$** | **378.2** | $ | 378.4 |
| Lumber | | **18.2** | | 11.5 | | **58.0** | | 60.5 |
| Wood chips and other | | **3.3** | | 2.3 | | **12.2** | | 11.8 |
| Real estate | | **0.1** | | 1.3 | | **16.5** | | 11.2 |
| | **$** | **124.9** | $ | 115.6 | **$** | **464.9** | $ | 461.9 |
| **Sales Volume** | | | | | | | | |
| Logs (*thousand $m^3$*) | | **911.2** | | 927.7 | | **3,416.5** | | 3,391.1 |
| Lumber (*million fbm*) | | **32.6** | | 25.4 | | **115.3** | | 130.2 |
| **Production Volume** | | | | | | | | |
| Logs (*thousand $m^3$*) | | **969.1** | | 791.9 | | **3,559.9** | | 3,621.2 |
| Lumber (*million fbm*) | | **33.3** | | 25.7 | | **121.5** | | 111.4 |
| **Earnings Before Interest, Taxes, Depreciation and Amortization (EBITDA)*** | | | | | | | | |
| *(in millions of dollars)* | | | | | | | | |
| Net earnings | **$** | **16.9** | $ | 1.5 | **$** | **39.3** | $ | 44.6 |
| Add: | | | | | | | | |
| Interest expense | | **4.3** | | 5.2 | | **15.3** | | 23.4 |
| Loss on bond lock transaction | | **-** | | - | | **5.0** | | - |
| Income tax expense | | **6.7** | | 6.4 | | **27.1** | | 15.6 |
| Depreciation, depletion and amortization | | **3.2** | | 2.9 | | **11.5** | | 13.4 |
| Amortization of deferred financing costs | | **0.7** | | 1.8 | | **3.7** | | 3.6 |
| | **$** | **31.8** | $ | 17.8 | **$** | **101.9** | $ | 100.6 |

* EBITDA does not have a standardized meaning prescribed by Canadian generally accepted accounting principles and may not be comparable to similar measures presented by other companies.

# 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 2.1 million to 2.5 million $m^3$ of logs, are largely located on Vancouver Island and contain some of the best coniferous forest growing sites in the world. The American Forest & Paper Association has certified that the Company is committed to managing these private lands according to sustainable forestry standards under its Sustainable Forestry Initiative (SFI)[SM] Program. TimberWest also owns annual Crown harvest rights of 1.2 million $m^3$ of logs, a lumbermill, and about 6,000 hectares of properties that are progressively being made available for higher uses.

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

Visit us at our web site: www.timberwest.com

TimberWest