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FOURTH QUARTER INTERIM REPORT

FOR THE THREE AND TWELVE MONTHS ENDED DECEMBER 31, 2003

TimberWest Forest Corp.

TIMBERWEST FOREST CORP.

To Our Unitholders,

The last quarter of 2003 proved to be another challenging quarter in a very difficult year. In previous months, we struggled with oversupplied markets in Japan and the US, a strong Canadian dollar, a stumpage system on Crown lands which was not market based, the ongoing softwood dispute with the US and a very dry summer. These problems followed us into the fourth quarter and were exacerbated when the IWA launched a strike that took down most coastal operations for 19 days – and effectively longer because the strike ended as winter weather and other seasonal curtailments hit.

TimberWest generated distributable cash of \$9.0 million or \$0.12 per Stapled Unit for the fourth quarter, compared to distributable cash of \$24.2 million, or \$0.32 per Stapled Unit for the same period in 2002. These results reflect the effect of factors mentioned above, including weaker markets, a strengthening currency and the impact of the 19 days of lost production during the quarter, including a one-day walkout early in November by the IWA, followed by a strike beginning November 21, 2003, which resulted in the Company losing an additional 18 days of production on its timberland operations. The strike hindered efforts to make up for production time lost when severely dry conditions closed down timberland operations during the third quarter. Also, the Company decided to sell a much higher proportion of low-value fibre during the quarter and retain a higher-value-mix inventory to close out the year. Thus, log sales volumes were about 17 percent lower than anticipated for the quarter and log sales realizations were off by approximately 10 percent.

For the year, TimberWest generated distributable cash of \$51.4 million or \$0.67 per Stapled Unit, compared to distributable cash of \$90.1 million or \$1.21 per Unit for fiscal 2002. In addition to all of the factors outlined above, higher capital expenditures and lower proceeds from the sale of real estate also reduced distributable cash.

Some 80% of TimberWest's operating revenues are log sales and, relative to 2002, the average external log sales realizations declined 10% in the year, resulting in a \$38.0 million decline in revenues related to log sales. While about half of this variance is attributable to currency, the balance is related to weaker markets and a lower-value species and end-use sort mix.

Costs and production levels were also negatively impacted.

In 2003, TimberWest spent \$13.0 million of additional capital on strategic investments to upgrade our Elk Falls lumbermill and to acquire real estate for the construction of a new log sort on Vancouver Island. Distributable cash was reduced by a corresponding amount.

Cash flow from operations, after changes in working capital, was a more positive story in 2003 because considerable working capital was turned into cash in the fourth quarter. As a result, debt levels are only \$18.5 million higher than at the beginning of the year, at \$255.0 million.

The Company paid out \$82.1 million in distributions to its unitholders in 2003 and had to borrow to satisfy some of this requirement. From inception to the end of 2003, the Company has generated distributable cash of \$471.6 million while, including the January 2004 distribution of \$20.5 million, the Company has paid out \$484.3 million to unitholders. At this time, we are pleased to announce our next quarterly distribution of \$0.269 per Stapled Unit, payable on April 15, 2004, to unitholders of record on April 1, 2004.

Getting back to our operating results, while TimberWest harvested 2.5 million m³ of logs from its private forestlands during the year, it only harvested half of its annual allowable cut on Crown lands because of market, weather and strike-related downtime.

All operations continued to work hard on reducing costs and improving productivity in 2003 and, despite the tough operating conditions, our private land operations made good progress towards their cost reduction targets, achieving a \$4.27 per m³ improvement over 2002 production costs. These gains were offset by difficulties at our public land logging and sawmilling operations, which were unable to achieve their targets due to the low level of operations during the year.

It was a difficult year for our Elk Falls lumbermill as well, which produced a higher-value mix of products in an environment where prices were declining across-the-board.

We did make good progress on our safety performance in 2003, a core component of our Operations Excellence strategy. At Elk Falls, we achieved a Medical Incident Rate ("MIR") of 2.56, bettering our 2002 MIR of 4.1. Timberland Operations achieved an MIR of 4.48, improving on 2002's MIR by 18 percent.

TimberWest initiated an auction process for the sale of TFL 46 and associated forest licences in September, and signed definitive agreements with the Teal-Jones Group for the sale in early 2004. The sale is still subject to several conditions but it is expected to close during the first half of 2004. We are pleased with this transaction as it greatly simplifies our business model and it allows us to pursue our strategic objective of increasing our focus on the private timberland portion of our business.

The BC government has made progress in terms of implementing new forest policies. The new tenure transfer provisions were fully operative by year-end and the introduction of the new market based stumpage system was announced in early

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January 2004. In early February 2004, TimberWest was provided more information about the previously announced 20% tenure takeback that is being applied to all licencees. The Ministry of Forests advised the Company that 168,000 m³ will be taken back from TFL 46 and 32,000 m³ from TFL 47. In addition, the provincial government announced that there would be provision for compensation for the tenure takeback, with specifics to be communicated in the future. We look forward to seeing the remaining elements of the change program implemented, including the revisions to Bill 13 contractor regulations, so full market forces are in place.

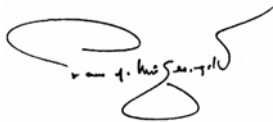
TimberWest is also committed to working with the IWA to modernize our labour agreement and lower costs. We support the legislation passed by the provincial government in December to end the strike in the coastal forest industry and we are encouraged by the appointment of Donald Munroe as mediation-arbitration Commissioner and by his terms of reference. The Commissioner must consider the need for terms and conditions of employment that are "consistent with the economic viability and competitiveness of the coastal forest industry in both the short- and long-term, the importance of good labour-management relations and the interests of the employees and trade unions". I believe it is fair to say that both sides in this dispute recognized the need for some assistance in coming to a satisfactory resolution to this dispute.

We are hopeful that the market reforms introduced by the Province, combined with a modernized labour agreement in 2004, will go a long way to rejuvenating the public land segment of the BC Coastal forest industry. Re-establishing a vibrant and competitive sawmill industry on the coast, which will now be capable of paying international prices for its logs, will be beneficial to TimberWest's private land business.

TimberWest faces a challenging environment in 2004, but there is reason for optimism as we expect to finish the year with a reduced cost structure. Our challenges come to us in the form of a strong Canadian dollar, continuing uncertainty on the softwood lumber dispute and a very tight log supply which has resulted in some coastal BC sawmills blocking our exports, in effect forcing us to sell more logs at below market prices – a situation facilitated by federal government regulations that restrict the freedom of private forestland owners. Our optimism is driven by the prospect of a new labour contract by May 2004 that, combined with diligent cost reduction strategies, should result in additional cost savings. We also foresee a stronger domestic log market as local sawmills reduce costs and increase lumber shipments to the Japanese market.

We will continue to focus on our Operations Excellence strategy and on moving closer to our core business model through the sale of TFL 46. In a stable-to-improving log price environment, these are strategies that will increase distributable cash.

On behalf of the Board of Directors



Paul J. McElligott
President and Chief Executive Officer

Vancouver, British Columbia
February 10, 2004

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Management's Discussion and Analysis

For the three and twelve months ended December 31, 2003

Management's discussion and analysis supplements, but does not form part of, the unaudited interim consolidated financial statements of TimberWest Forest Corp. ("TimberWest" or "the Company") and the notes thereto for the fourth quarter of 2003. 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 2003 relative to the fourth quarter and year to date of 2002, and that have affected the Company's financial position as at December 31, 2003, relative to December 31, 2002. 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 2002 Annual Report.

This management's discussion and analysis has been prepared based on information available as at February 10, 2004. Additional information relating to TimberWest, including the Company's most recent Annual Information Form and other statutory reports, can be found on the System for Electronic Document Analysis and Retrieval (SEDAR) at www.sedar.com.

Distributable Cash

In compliance with recent changes to CICA Handbook Section 1540 – *Cash Flow Statements*, TimberWest will no longer be including separate statements of distributable cash in its financial statements. Information previously presented in the statements of distributable cash will now be included in the Management's Discussion and Analysis.

<i>(in millions of dollars, except per Stapled Unit amounts)</i>	Three months ended December 31		Twelve months ended December 31	
	2003	2002	2003	2002
Net earnings (loss)	\$ (0.7)	\$ 16.9	\$ 24.8	\$ 39.3
Income tax benefit related to distributions	1.5	9.2	17.4	26.7
Earnings available for distribution	0.8	26.1	42.2	66.0
Future income tax expense (recovery)	0.5	(2.5)	-	(0.2)
Earnings available for distribution before provision for future income tax expense (recovery)	1.3	23.6	42.2	65.8
Add (deduct):				
Depreciation, depletion and amortization	2.8	3.9	11.2	15.2
Proceeds from sale of property, plant and equipment	4.5	2.2	11.4	19.4
Gain on sale of property, plant and equipment	(0.9)	(0.3)	(3.7)	(3.9)
Additions to property, plant and equipment	(1.0)	(5.5)	(18.0)	(11.5)
Other non-cash items	2.3	0.3	8.3	5.1
	7.7	0.6	9.2	24.3
Distributable cash	\$ 9.0	\$ 24.2	\$ 51.4	\$ 90.1
<i>Basic distributable cash per weighted average Stapled Unit</i>	\$ 0.12	\$ 0.32	\$ 0.67	\$ 1.21
<i>Diluted distributable cash per weighted average Stapled Unit</i>	\$ 0.12	\$ 0.32	\$ 0.67	\$ 1.20
<i>Cash distributions paid per Stapled Unit</i>	\$ 0.27	\$ 0.27	\$ 1.08	\$ 1.08

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

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Distributable cash and earnings available for distribution 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 of net earnings as determined in accordance with GAAP and both earnings available for distribution and distributable cash is provided in the preceding table.

Quarterly comparison of distributable cash generated:

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

Quarterly Financial Highlights

TimberWest generated distributable cash of \$9.0 million or basic and diluted distributable cash of \$0.12 per weighted average Stapled Unit for the quarter ended December 31, 2003, compared to distributable cash of \$24.2 million or basic and diluted distributable cash of \$0.32 per weighted average Stapled Unit for the same period in 2002. The decrease from 2002 can be attributed to a net loss of \$0.7 million in the fourth quarter of 2003, compared to net earnings of \$16.9 million for the comparable period in 2002. Earnings available for distribution for the fourth quarter of 2003, before provision for future income taxes, were \$1.3 million or \$0.02 per basic and diluted weighted average Stapled Unit compared to \$23.6 million or \$0.31 per basic and diluted weighted average Stapled Unit for the same quarter in 2002. Net sales for the fourth quarter of 2003 were \$92.3 million compared to net sales of \$124.9 million reported for the fourth quarter of 2002. Operating earnings were \$5.8 million for the fourth quarter of 2003 compared to \$28.3 million for the same quarter in 2002. Earnings before interest, taxes, depreciation and amortization ("EBITDA")¹ for the quarter ended December 31, 2003, were \$8.7 million or \$0.11 per basic and diluted weighted average Stapled Unit compared to \$31.8 million or \$0.42 per basic and diluted weighted average Stapled Unit for the same period in 2002.

2003 fourth quarter results reflect the effects of 19 days of lost production during the quarter due to work stoppages on the Company's timberland operations, including a one day walk-out early in November 2003 by members of the Industrial, Wood & Allied Workers ("IWA") union, followed by a strike that commenced November 21, 2003, which resulted in an additional 18 days of lost production.

Year to Date Financial Highlights

TimberWest generated distributable cash of \$51.4 million or basic and diluted distributable cash of \$0.67 per weighted average Stapled Unit for the twelve months ended December 31, 2003, compared to 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 for fiscal 2002. The decrease from the prior year can be attributed to lower operating earnings, higher additions to property, plant and equipment and lower proceeds from the sale of property, plant and equipment in 2003 compared to 2002. In 2003, net earnings of \$24.8 million were 37% lower, additions to property, plant and equipment of \$18.0 million were \$6.5 million higher and proceeds of \$11.4 million from sale of property, plant and equipment were \$8.0 million lower than comparable amounts in 2002. In addition, 2002 distributable cash reflected a one-time, pre-tax restructuring charge of \$9.8 million and a one-time, pre-tax loss on a bond lock transaction of \$5.0 million recorded during the year. Earnings available for distribution for the year ended December 31, 2003, before provision for future income taxes,

¹ EBITDA is a measure that does 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 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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were \$42.2 million or \$0.55 per basic and diluted weighted average Stapled Unit compared to \$65.8 million or \$0.88 per basic and diluted weighted average Stapled Unit for 2002. Net sales for fiscal 2003 were \$428.5 million compared to net sales of \$464.9 million reported for 2002. Operating earnings for the year ended December 31, 2003, were \$58.7 million compared to \$99.3 million for 2002. EBITDA for the twelve months ended December 31, 2003, were \$70.3 million or \$0.92 per basic and diluted weighted average Stapled Unit compared to \$101.9 million, or \$1.36 per basic and diluted weighted average Stapled Unit for the same period in 2002.

As noted previously, 2003 financial results were adversely affected by 19 days of lost production during the fourth quarter of 2003 due to work stoppages on the Company's timberland operations. The adverse effects of these work stoppages in the fourth quarter contributed to fiscal 2003 results coming in behind those reported in fiscal 2002.

During the third quarter of 2003, the Company added on to its existing debenture issue by completing a public offering of \$65.0 million aggregate principal amount of 7.0% unsecured senior debentures due October 1, 2007. The debentures were sold at 101.28% of their principal amount, with net proceeds to the Company of \$64.4 million. The Company used these proceeds to reduce indebtedness under its revolving credit facilities. The Company also received accrued interest on these debentures from April 1, 2003, of \$2.2 million.

During the second quarter of 2003, the Company completed short-term financing from a Canadian bank in the amount of \$40.0 million in the form of an unsecured 364-day revolving facility due May 26, 2004, and completed a two-year extension to its \$125.0 million unsecured revolving facility now due June 30, 2006.

During the first quarter of 2003, the Company completed and received additional short-term financing from a Canadian bank in the amount of \$40.0 million pursuant to an unsecured 364-day committed revolving facility due on March 1, 2004.

In addition, during the first quarter of 2003, the Company retired \$106.5 million aggregate principal amount of its 6.5% debentures when they matured on March 3, 2003.

Subsequent Event

On January 21, 2004, the Company signed a definitive agreement for the sale of its southern Vancouver Island public land operations, referred to as Tree Farm Licence 46 ("TFL 46"). The sale is subject to several conditions and is expected to close during the first half of 2004. Sale proceeds on this transaction are expected to exceed the carrying value of the assets being disposed of and will be included in distributable cash.

The decision to sell TFL 46 was announced late in the third quarter of 2003 and the sale was undertaken through an auction process with qualified bidders. TFL 46 represents part of the Company's public land logging business, includes timber rights to an annual allowable cut of 510,000 m³ on 83,546 hectares of Crown land, and has been operated by TimberWest as part of its Honeymoon Bay operation on southwest Vancouver Island.

The decision to offer TFL 46 for sale was based on a strategic review of the Company's portfolio of assets and a focus on maximizing returns to unitholders. TimberWest's core business is its private timberlands – for other companies, owning and operating a Tree Farm Licence ("TFL") is a core business strategy, therefore they may place a higher value on TFL 46. With recent policy changes around the sale of tenures and other forest policy reforms in British Columbia, TimberWest believed an opportunity existed to realize better value for unitholders from TFL 46 by selling it today.

Cash Distribution

On February 10, 2004, TimberWest announced a distribution of \$0.269 per Stapled Unit, payable April 15, 2004, to unitholders of record on April 1, 2004.

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.

The Company paid out \$82.1 million in distributions to its unitholders in 2003 and had to borrow to satisfy some of this requirement. From inception to the end of 2003, the Company has generated distributable cash of \$471.6 million while, including the January 15, 2004, distribution of \$20.5 million, the Company has paid out \$484.3 million to unitholders.

Operating Highlights

Log sales for the three months ended December 31, 2003, were \$69.8 million, down 32% from log sales of \$103.3 million for the quarter ended December 31, 2002. This decrease reflects both lower log sales volumes and realizations in the fourth quarter of 2003 relative to the fourth quarter in 2002. Log sales for the fourth quarter of 2003 were adversely affected by 19 days of lost production due to labour-related work stoppages during the quarter, including the effect of these stoppages on the Company's domestic customers. Lost production constrained the Company's ability to match its sales mix to customer

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demand, resulting in a 16% decrease in sales volumes for the fourth quarter of 2003 compared to the fourth quarter of 2002. Domestic log sales volumes for the fourth quarter of 2003 of 534.5 thousand m³ were down 18% from 650.8 thousand m³ for the comparative quarter in 2002. Fourth quarter export sales volumes were down 11% year-over-year, coming in at 232.1 thousand m³ compared to 260.4 thousand m³ in 2002, with volumes into US markets decreasing by 45% to 71.6 thousand m³, offset in part by a 23% increase in volumes into Asian markets to 160.5 thousand m³. Continued weakness in global lumber markets and the continued strength of the Canadian dollar placed downward pressure on overall log sales realizations for the fourth quarter of 2003, dropping 20% to \$91 per m³ in comparison to realizations of \$113 per m³ for the fourth quarter of 2002. Domestic log sales realizations for the quarter were down 22%, to \$77 per m³, compared to those in the fourth quarter of 2002. Fourth quarter export log sales realizations for 2003 were down 18%, to \$124 per m³, with sales realizations into US and Asian markets down 19% and 28%, respectively.

The operating margin from timberland operations for the fourth quarter of 2003 averaged 13% of log sales compared to 29% for the fourth quarter of 2002, reflecting the effects of both lower log sales and costs associated with the labour-related work stoppages during the quarter, including fixed operating costs and additional costs related to the shutdown and startup of operations. These effects were partially mitigated by achievements in cost reduction made earlier in the year and carried through the quarter, as well as by a decrease in harvests from higher-cost public lands relative to the comparative period in 2002, resulting in production costs for the fourth quarter of 2003 dropping to \$71 per m³ from \$78 per m³ for the fourth quarter of 2002. With 19 days of lost production in the quarter, logging production volumes for the fourth quarter of 2003 were down 26% over the comparative period in 2002.

Log sales for the year ended December 31, 2003, were \$340.1 million, down 10% from log sales of \$378.2 million for fiscal 2002. This decrease reflects the net effect of a 10% decrease in average log sales realizations and a 1% decrease in the volume of logs sold relative to 2002. Overall log sales realizations for 2003 averaged \$100 per m³ compared to \$111 per m³ for 2002, with realizations on domestic sales dropping 9% from the prior year to \$86 per m³ and realizations on export sales dropping 8% from the prior year to \$124 per m³. 2003 log sales reflect a very strong first quarter where log sales volumes were 41% greater than the comparative quarter in 2002, with domestic market sales for the first quarter of 2003 more than doubled those for the comparative quarter in 2002. The favourable results of the first quarter of 2003 have been offset by weaker log sales through the balance of the year, reflecting numerous factors including the effects of global weakness in lumber markets, a strengthening Canadian dollar relative to its US counterpart, a weaker fibre profile, weather-related curtailments during the unusually hot, dry summer and the labour-related work stoppages in the fourth quarter. 2003 domestic log sales volumes of 2,082.6 thousand m³ were up 2% compared to 2002, while 2003 export sales volumes were down 5% compared to 2002, to 1,306.0 thousand m³. Volumes sold to US markets in 2003 were down 14% compared to 2002, while volumes sold to Asian markets increased 4% over 2002. US and Asian markets accounted for 47% and 53% of 2003 export volumes, respectively, compared to 52% and 48% in 2002.

The timberland operations' operating margin for 2003 was 23%, down 6% from 29% of log sales for 2002, reflecting the effect of lower log sales realizations described above. On a year to date basis, lower log sales realizations have been partially mitigated by cost reductions, a decrease in harvest volumes from higher-cost public lands and the use of lower-cost harvest systems, resulting in a decrease in production costs to \$73 per m³, down from \$76 per m³ for 2002. Logging production volumes for 2003 were down 12% over 2002, to 3,132.6 thousand m³, reflecting the net effect of increased harvests in the first quarter of 2003, offset by reduced harvests in the balance of the year due to market, weather and labour-related curtailments on timberland operations.

Lumber sales for the quarter ended December 31, 2003, of \$16.5 million were down 9% from sales of \$18.2 million for the comparative quarter in 2002. This result reflects the effect of a 1% decrease in the volume of lumber sold in the fourth quarter of 2003, to 32.3 million board feet, and an 8% decline in average lumber sales realizations, falling to \$514 per mfbm from \$557 per mfbm for the comparative period in 2002, primarily reflecting the strength of the Canadian dollar in 2003. Weakness in end markets continued through the fourth quarter of 2003, contributing to operational curtailments late in the quarter, mitigating the increased productivity from the third shift added during the year and resulting in fourth quarter production volumes being comparable to those for the fourth quarter of 2002.

Lumber sales for the year ended December 31, 2003, of \$62.6 million were 8% greater than sales of \$58.0 million for 2002. This improvement reflects a 16% increase in the volume of lumber sold, rising to 133.3 million board feet for 2003 from 115.3 million board feet for 2002, offset in part by a 7% decrease in average lumber sales realizations, which fell to \$470 per mfbm from \$503 per mfbm for 2002. Adverse market and economic conditions prevailed throughout 2003 and have unfavorably affected operating results at the lumbermill for 2003 relative to 2002. Given these conditions, despite the addition of a third shift to the lumbermill during the year, production at the lumbermill for 2003 was up only 3% over 2002.

Wood chip sales for the fourth quarter of 2003 of \$2.4 million were up 14% from the comparative period in 2002, reflecting a 17% increase in chip volumes sold. Capital and process improvements implemented at the mill earlier in the year resulted in fourth quarter chip recoveries improving by 17% over the comparative quarter in 2002. Wood chip sales for 2003 of \$8.6 million were 13% greater than chip sales in 2002, once again reflecting a 15% increase in chip volumes sold compared to 2002. Again, capital and process improvements made at the mill have resulted in an 11% increase in chip recoveries compared to those achieved in fiscal 2002.

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Real estate sales of \$2.1 million for the fourth quarter of 2003 were considered typical and, combined with activity reported in the first nine months of the year, have resulted in year to date real estate sales of \$8.6 million. This compares to sales of \$0.1 million and \$16.5 million for the fourth quarter and 2002 fiscal year, respectively. Prior year results reflect the sale of TimberWest's Earle Creek property, a significant property located on the Sunshine Coast of BC, in the third quarter of 2002 for proceeds of \$11.5 million. Of the \$8.6 million in real estate sales for 2003, receipt of \$1.2 million in proceeds on one property sale has been deferred to future years, therefore only cash received of \$7.4 million has been included in distributable cash for the current year.

Financial Position

Current assets at December 31, 2003, experienced a year-over-year decrease of \$32.2 million to \$70.1 million, down 31% from \$102.3 million as at December 31, 2002. This decrease can be partially attributed to a \$21.6 million decrease in inventories to \$45.7 million at December 31, 2003, compared to \$67.3 million at December 31, 2002. Log inventories of \$41.1 million at the end of 2003 were \$15.9 million or 28% lower than log inventories of \$57.0 million at the end of 2002, reflecting a 27% decrease in log volumes in inventory at year end resulting from lost production in November and December due to the labour-related work stoppages. Lumber inventories of \$3.1 million at the end of 2003, were \$5.4 million or 64% lower than lumber inventories of \$8.5 million at December 31, 2002, reflecting a 57% decrease in lumber volumes in inventory at year end, primarily due to a three week market-related curtailment of production at the mill in December 2003 and a greater proportion of higher-value Douglas fir product in 2002 year-end inventory. A \$9.7 million decrease in trade accounts receivable to \$15.4 million at December 31, 2003, down from \$25.1 million at December 31, 2002, further contributed to the decrease in current assets and can be attributed to lower log sales in the month of December due to lost production and the resultant decrease in product available for sale.

Property, plant and equipment of \$1,356.5 million as at December 31, 2003, were \$0.9 million greater than at December 31, 2002, reflecting the net effect of \$18.0 million in additions to property, plant and equipment in 2003, offset by the current year provision for depreciation, depletion and amortization of \$9.8 million and the sale of property, plant and equipment in 2003 for proceeds of \$11.4 million. Major additions to property, plant and equipment made during 2003 include \$9.5 million towards improvement projects at the Elk Falls lumbermill, including the purchase of three new lumber drying kilns and the replacement of the trimmer optimizer, \$3.3 million to complete the North Island log sort and \$2.5 million on road building activities for timberland operations.

Other assets were down \$6.1 million to \$14.3 million at December 31, 2003, from \$20.4 million at December 31, 2002, primarily due to a \$2.9 million decrease in the provision for prepaid pension benefits.

Current liabilities at the end of 2003 were \$110.0 million, down \$63.0 million from \$173.0 million as at December 31, 2002. This decrease can be attributed to several factors, most notably the retirement of \$106.5 million aggregate principal amount of 6.5% debentures upon their maturation in the first quarter of 2003. Current liabilities at December 31, 2003, also include combined borrowings of \$60.0 million on two separate short-term credit facilities negotiated during the year. In the first quarter of 2003, the Company completed and received financing from a Canadian bank in the amount of \$40.0 million pursuant to an unsecured 364-day committed revolving facility due March 1, 2004. In the second quarter of 2003, the Company completed and received additional financing from a Canadian bank in the amount of \$40.0 million pursuant to an unsecured 364-day committed revolving facility due May 26, 2004. Accounts payable and accrued liabilities decreased \$16.5 million to \$29.5 million at December 31, 2003, reflecting lower trade payables due to production curtailments in December 2003, lower stumpage fee accruals due to reduced harvests on Crown tenures during the fourth quarter and reduced compensation-related accruals under restructuring and incentive programs compared to balances as at December 31, 2002. The distribution payable at December 31, 2003, of \$20.5 million is comparable to the distribution payable at December 31, 2002, reflecting a consistent per unit distribution and no significant change in the number of Stapled Units outstanding during fiscal 2003.

As at December 31, 2003, long-term credit facilities available to the Company consisted of an unsecured revolving credit facility for \$125.0 million. In the second quarter of 2003, the Company completed a two-year extension to this facility, which is now due on June 30, 2006. There were no borrowings on this facility at both December 31, 2003, and December 31, 2002. Long-term liabilities as at December 31, 2003, include \$195.0 million aggregate principal amount of 7.0% unsecured senior debentures due October 1, 2007, of which \$130.0 million were outstanding at December 31, 2002. During the third quarter of 2003, the Company added on to its existing debenture issue by completing a public offering for an additional \$65.0 million aggregate principal amount of the 7.0% unsecured senior debentures. Long-term liabilities at December 31, 2003, also included a silviculture liability of \$4.6 million, a \$25.3 million liability relating to non-pension post retirement benefits and a future income tax liability of \$230.5 million. These liabilities have not changed materially from the balances reported at December 31, 2002.

At December 31, 2003, unitholders' equity was \$875.5 million, \$39.3 million lower than as at December 31, 2002. This decrease is primarily due to a \$39.9 million decrease in retained earnings during the year, which can be attributed to 2003 distributions on Series A Subordinate Notes held by unitholders of \$82.1 million (net of the \$17.4 million tax benefit thereon)



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exceeding 2003 net earnings of \$24.8 million (see note 4 to the accompanying unaudited interim consolidated financial statements). In 2003, the stated value of Stapled Units increased by \$0.5 million over the comparative year due to the issuance of Stapled Units on the exercise of Stapled Unit options in 2003. As at February 10, 2004, the Company had 76,246,122 issued and outstanding Stapled Units.

During the quarter ended December 31, 2003, no Stapled Unit options were granted, exercised, or cancelled. During the year ended December 31, 2003, 267,047 Stapled Unit options were granted, options to purchase 53,334 Stapled Units were exercised for proceeds of \$0.5 million and 9,367 options were cancelled. As at February 10, 2004, the Company had 1,518,733 granted and outstanding Stapled Unit option awards.

Cash Flow and Liquidity

Net cash generated from operations before changes in non-cash working capital for the three months ended December 31, 2003, was \$4.5 million or \$0.06 per basic and diluted weighted average Stapled Unit compared to \$27.5 million or \$0.36 per basic and diluted weighted average Stapled Unit for the corresponding quarter in 2002. For the year ended December 31, 2003, net cash generated from operations before changes in non-cash working capital was \$51.3 million or \$0.67 per basic and diluted weighted average Stapled Unit compared to \$78.0 million or \$1.04 per basic and diluted weighted average Stapled Unit for the comparative period in 2002. During the fourth quarter of 2003, non-cash working capital decreased by \$8.0 million compared to a \$12.6 million increase reported for the same period in 2002. For 2003, non-cash working capital decreased by \$13.2 million compared to a \$3.8 million increase reported for 2002. Current year decreases in non-cash working capital reflect the effects of the labour-related production curtailments on the Company's timberland operations and the market-related curtailments at the Company's lumbermill. Reduced production late in the fourth quarter of 2003 resulted in reductions to accounts receivable, inventories and accounts payable and accrued liabilities balances to lower levels than typical at the end of the fiscal year.

Net cash used in financing activities during the fourth quarter of 2003 was \$18.3 million compared to \$10.7 million used in financing activities for the comparative period of 2002. Financing cash flows for the three months ended December 31, 2003, included the payment of the fourth quarter distribution to unitholders of \$20.5 million, which was comparable to the distribution paid in the fourth quarter of 2002, and net borrowings on credit facilities during the quarter of \$2.9 million. In the fourth quarter of 2002, the Company closed a public offering of \$130.0 million aggregate principal amount of 7% debentures and applied a portion of the proceeds from this public offering to purchase for cancellation \$18.5 million aggregate principal amount of the 6.5% debentures which matured on March 3, 2003. In addition, \$63.0 million of the proceeds were used to settle financial obligations on the Company's previously outstanding non-revolving credit facility and \$36.5 million of the proceeds were used to pay down borrowings on the Company's revolving credit facility. Net cash used in financing activities during 2003 was \$63.7 million, a decrease of \$20.2 million over net cash used in financing activities in 2002 of \$83.9 million. The Company made distributions of \$82.1 million to unitholders in 2003 compared to distributions of \$78.9 million in 2002, reflecting an increase in the number of outstanding Stapled Units during 2003 due to the issuance of Stapled Units through the public equity offering completed early in 2002. During 2003, the Company issued 53,334 Stapled Units for net proceeds of \$0.5 million on the exercise of Stapled Unit options, compared to \$3.1 million received on the exercise of 311,291 options in 2002. During 2003, the Company closed an add-on public offering of \$65.0 million aggregate amount of the Company's 7% unsecured senior debentures for net proceeds of \$64.4 million after costs of \$1.4 million and had net borrowings of \$60.0 million on its revolving credit facilities. In 2002, the Company completed a public equity offering for 11,190,650 Stapled Units with net cash proceeds to the Company of \$136.1 million and closed a public offering of \$130.0 million aggregate principal amount 7.0% unsecured senior debentures, with net proceeds to the Company of \$127.8 million after costs of \$1.6 million. Funding provided from the public equity and the debenture offerings completed in 2002 was applied to settle financial obligations on previously outstanding overdraft and non-revolving credit facilities, to pay down borrowings on the Company's revolving credit facility and to purchase for cancellation \$18.5 million aggregate principal amount of the 6.5% debentures which matured on March 3, 2003.

Net cash provided by investing activities during the fourth quarter of 2003 was \$5.8 million compared to net cash used in investing activities of \$3.2 million for the fourth quarter of 2002. This year-over-year variance can be attributed to lower capital spending and greater proceeds from the sale of property, plant and equipment in the fourth quarter of 2003 compared to the same period in 2002. For the year ended December 31, 2003, net cash used in investing activities was \$1.8 million compared to net cash provided by investing activities of \$10.7 million for 2002. The variance from 2002 can primarily be attributed to additional spending of \$6.5 million on property, plant and equipment in 2003, including improvements at the Elk Falls lumbermill and completion of the North Island log sort, and \$6.1 million less proceeds received on the sale of property, plant and equipment in 2003 given the sale of the Company's Earle Creek property for proceeds of \$11.5 million in 2002.

As at December 31, 2003, TimberWest's consolidated debt was \$255.0 million compared to total debt outstanding of \$236.5 million as at December 31, 2002. The Company's consolidated debt-to-total capitalization ratio as at December 31, 2003, was 23:77, up slightly from 21:79 as at December 31, 2002. Total debt facilities available to the Company as at December 31, 2003, were \$400.0 million, comprised of \$40.0 million available under the 364-day revolving facility due March 1, 2004,

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\$40.0 million available under the 364-day revolving facility due May 26, 2004, \$125.0 million available under the revolving credit facility maturing on June 30, 2006, and \$195.0 million of 7.0% debentures maturing on October 1, 2007.

In February 2004, the Company increased flexibility on all its bank credit facilities by obtaining an amendment to the Company's debt/EBITDA covenant. The amendment increases this test to 4.75:1 for the quarter ended March 31, 2004, from the previous level of 4.25:1.

Accounting Policy Changes

Stock-based compensation and other stock-based payments

Effective January 1, 2003, the Company changed its policy of accounting for Stapled Unit option awards in accordance with the recommendations of the Canadian Institute of Chartered Accountants ("CICA") Handbook Section 3870 – *Stock-based Compensation and Other Stock-based Payments*. Section 3870 establishes 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. It applies to transactions in which common shares, stock options or other equity instruments are granted or liabilities incurred based on the price of common shares or other equity instruments.

In fiscal 2002, the Company adopted the recommendations of Section 3870 in effect at that time and elected to continue with its previously established policy that no compensation cost was recorded on the grant of Stapled Unit options to directors, officers or employees who are in active service or employment of the Company or of any of its subsidiaries, and complied with the requirement to provide additional disclosure of the effect of stock-based awards on net income and earnings per Stapled Unit on a pro forma basis.

During 2003, Section 3870 was amended to require recognition of expenses for all employee stock-based compensation transactions, including awards of Stapled Unit options, for fiscal years beginning on or after January 1, 2004. The Company made the decision to early-adopt the amendments to Section 3870 and effective January 1, 2003, has recognized a stock-based compensation expense using the fair value method for all employee stock-based compensation transactions, including awards of Stapled Unit options entered into on or after January 1, 2003. The Company has elected to adopt the recommendations of Section 3870 on a prospective basis and has not applied the fair value based method of accounting to Stapled Unit options granted between January 1, 2002, and December 31, 2002.

Cash flow and other per share information

Effective June 30, 2003, the Company adopted the recommendations of the CICA Handbook Section 1540 – *Cash Flow Statements* and Section 3500 – *Earnings per Share*. Section 1540 and Section 3500 were amended during 2003, prohibiting the presentation of cash flow information on a per share basis in the financial statements, except for dividends or similar distributions in cash, paid or payable, to shareholders or unitholders.

In compliance with the amendments to Section 1540 and Section 3500, the Company will no longer be including separate statements of distributable cash as part of its financial statements. In addition, the Company will no longer be disclosing earnings information for the components of its equity instrument, the Stapled Unit, in its financial statements other than earnings attributable to the common share component on a per common share basis. The statement of distributable cash and related earnings information is now included in management's discussion and analysis.

Future Accounting Standard Change

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

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

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

The Company's Stapled Units are a unique equity instrument, consisting of one common share, 100 preferred shares and approximately \$8.98 face amount of Series A Subordinate Notes. These components are "stapled" together as a single unit



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and trade together on the Toronto Stock Exchange as Stapled Units. Components cannot be transferred except with each other as part of a Stapled Unit. The Company has historically classified all components of the Stapled Unit as equity on its balance sheet as the Company's Subordinate Notes have a "Common and/or Preferred Shares Payment Election". This election provides the Company with the option to satisfy its obligation to pay any interest on the Subordinate Notes by delivering common and/or preferred shares and with the option to pay the principal amount of the outstanding Subordinate Notes by delivering common shares.

Given that the number of shares required to retire the Subordinate Note component is not fixed, the revision to Section 3860 requires that the Company reclassify the Series A Subordinate Note component of the Stapled Unit from equity to liabilities. Had the revision to Section 3860 been implemented by the Company for its 2003 fiscal year end, the reclassification of the Subordinate Note component of the Stapled Unit from equity to liabilities at December 31, 2003, would have been \$684.6 million.

Further, holders of the Company's Stapled Units are entitled to annual interest payments on the Subordinate Note component of approximately \$1.08. For the same reason that the Subordinate Note component is currently classified as equity on the Company's financial statements, interest payments on Stapled Units are currently charged directly to retained earnings, on an after-tax basis, as a distribution similar to dividends on common shares. The revision to Section 3860 will require distributions on Stapled Units to be reported, on a pre-tax basis, as an interest expense on the statement of operations. This revision also requires the tax benefit provided by the distributions to be reported as a component of the income tax provision on the statement of operations. Distributions on Stapled Units for fiscal 2003 were \$82.1 million and the tax benefit recognized thereon was \$17.4 million. Had the revision to Section 3860 been implemented by the Company for its 2003 fiscal year end, a net charge to earnings of \$64.7 million would have been required for the year ended December 31, 2003.

Pension Valuation

In recent years, TimberWest has had the benefit of a contribution holiday with respect to its pension plans. The Company will complete its triennial actuarial valuation of its pension obligations during the 2004 fiscal year, effective January 1, 2004, and this valuation will be the basis for determining the amount of any funding required in the future. TimberWest expects a solvency deficit to exist and, for 2004, expects to be required to fund annual current service costs of approximately \$1.5 million, plus approximately \$3.0 million to fund the plans' deficit.

Final Results From Normal Course Issuer Bid

Pursuant to a normal course issuer bid that expired at midnight on November 5, 2003, TimberWest was in a position to repurchase up to 3,809,201 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

TimberWest begins 2004 with a mixed set of business conditions. On the one hand, some improvements in our end markets are emerging and there is a strong organizational commitment to Operations Excellence; on the other, there are still unresolved policy and labour issues to contend with, which adds uncertainty to the business.

In Japan, economic reports indicate that a recovery is in progress, with measures to reinforce the banking system showing results and the export sector improving. In TimberWest's markets in Japan, demand for logs and lumber is improving as log and lumber inventories are low. Higher demand is causing pricing to increase in our domestic whitewood sawlog and Japan grade log sorts. Log supply on the coast of BC is tight, which will also help buoy pricing through the first part of the year, especially in our log mix for Japan.

In the US market, housing starts remain strong and lumber prices are stable. While tight supply in the US Pacific Northwest is also putting upward pressure on prices, TimberWest anticipates that it will be difficult to participate fully in this market in the near term because whitewood sorts suitable for the US market are in very short supply and as such the Company's exports to this market are being constrained by Notice 102. The strength of the Canadian dollar continues to be a concern in this market, but the recent weakening in the Canadian dollar against the US dollar will bring some relief.

The organization continues to work hard to reduce costs, and plans are well underway to continue with the Operations Excellence strategy in 2004. The Company also anticipates returning to more normal capital expenditure levels.

With respect to the broader business issues, TimberWest continues to support the provincial government's policy direction, particularly the implementation of a market based stumpage system. These changes will add value to the industry on the Coast and add certainty and stability for the future of the industry. However, in the near term, some coastal BC sawmills will continue to force TimberWest to sell more logs at below market prices – a situation facilitated by federal government regulations that restrict the freedom of private forestland owners. The labour mediation/arbitration process is well underway



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for a new Coast Master Agreement and TimberWest's expectation is that a resolution to the labour agreement, too, will bring more certainty to the business climate here. The effects of both of these initiatives will become clearer in the first half of 2004.

At this point TimberWest has plans in place, even with the current uncertainty in the business climate, to meet its distribution requirements for 2004. In comparison to 2003, this plan anticipates relatively flat pricing, further cost reduction, a better end-use sort mix and a return to more normal capital expenditure levels. Our expectation is that, with these improvements, the Company will just meet its distributable cash requirements for the year from operations but will use the proceeds from the TFL 46 sale to generate cash above our distribution requirements, thereby improving our overall debt position while meeting unitholder expectations. The Company believes that 2004 will be a year of transition and restructuring in our industry on the Coast and in our Company to improve business conditions for the future. Successful implementation of plans developed for 2004 – to further reduce costs and simplify our business model – is expected to improve earnings and cash from operations in 2005.

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

TIMBERWEST FOREST CORP.

Consolidated Statements of Operations

(in millions of dollars)
Unaudited

	Three months ended December 31		Twelve months ended December 31	
	2003	2002	2003	2002
Net sales	\$ 92.3	\$ 124.9	\$ 428.5	\$ 464.9
Operating costs and expenses:				
Cost of products sold	81.1	89.7	346.5	340.1
Depreciation, depletion and amortization	2.5	3.2	9.8	11.5
Selling, administrative and other	2.9	3.7	13.5	14.0
	86.5	96.6	369.8	365.6
Operating earnings	5.8	28.3	58.7	99.3
Interest expense	4.3	4.3	16.0	15.3
Amortization of debt issue costs	0.3	0.7	1.4	3.7
Other income	(0.4)	(0.3)	(1.8)	(0.9)
Loss on bond lock transaction	-	-	-	5.0
Restructuring charge	-	-	-	9.8
	4.2	4.7	15.6	32.9
Earnings before income taxes	1.6	23.6	43.1	66.4
Income tax expense (note 3)	2.3	6.7	18.3	27.1
Net earnings (loss) for the period	\$ (0.7)	\$ 16.9	\$ 24.8	\$ 39.3
Basic and diluted earnings (loss) per common share (note 4)	\$ (0.26)	\$ 0.07	\$ (0.52)	\$ (0.21)
Stapled Units outstanding at the end of the period (000's)	76,246	76,193	76,246	76,193

See accompanying notes to unaudited interim consolidated financial statements.

TIMBERWEST FOREST CORP.

Consolidated Balance Sheets

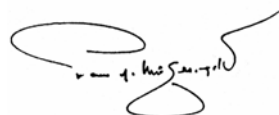
(in millions of dollars)

	As at December 31, 2003 <i>Unaudited</i>	As at December 31, 2002
Assets		
Current assets:		
Cash	\$ -	\$ 1.0
Accounts receivable	15.4	25.1
Inventories	45.7	67.3
Prepaid expenses and other current assets	6.4	4.8
Future income taxes	2.6	4.1
	70.1	102.3
Property, plant and equipment, net (note 5)	1,356.5	1,355.6
Other assets	14.3	20.4
	\$ 1,440.9	\$ 1,478.3
Liabilities and Unitholders' Equity		
Current liabilities:		
Revolving credit facilities (note 6)	\$ 60.0	\$ -
Debentures (note 7)	-	106.5
Accounts payable and accrued liabilities	29.5	46.0
Distribution payable	20.5	20.5
	110.0	173.0
Debentures (note 7)	195.0	130.0
Long-term silviculture liability	4.6	4.8
Non-pension post-retirement benefits	25.3	23.7
Future income taxes	230.5	232.0
	565.4	563.5
Unitholders' equity:		
Stapled Units, consisting of Series A Subordinate Notes, preferred shares and common shares	870.6	870.1
Contributed surplus	0.2	0.1
Retained earnings	4.7	44.6
	875.5	914.8
	\$ 1,440.9	\$ 1,478.3

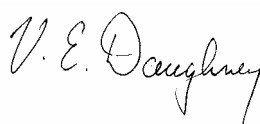
Subsequent event (note 10)

See accompanying notes to unaudited interim consolidated financial statements.

On behalf of the Board of Directors:



Paul J. McElligott
Director



V. Edward Daughney
Director

TIMBERWEST FOREST CORP.

Consolidated Statements of Cash Flows

(in millions of dollars)
Unaudited

	Three months ended December 31		Twelve months ended December 31	
	2003	2002	2003	2002
Cash provided by (used in):				
Operating activities:				
Earnings before income taxes	\$ 1.6	\$ 23.6	\$ 43.1	\$ 66.4
Cash income taxes (note 3)	(0.3)	-	(0.9)	(0.6)
	1.3	23.6	42.2	65.8
Items not involving cash:				
Depreciation, depletion and amortization	2.8	3.9	11.2	15.2
Gain on sale of property, plant and equipment	(0.9)	(0.3)	(3.7)	(3.9)
Other non-cash items	1.3	0.3	1.6	0.9
	4.5	27.5	51.3	78.0
Changes in non-cash working capital:				
Accounts receivable	9.8	(3.0)	9.7	7.0
Inventories	9.5	(5.5)	21.6	(13.1)
Prepaid expenses and other current assets	0.6	(0.9)	(1.6)	(2.5)
Accounts payable and accrued liabilities	(11.9)	(3.2)	(16.5)	4.8
	12.5	14.9	64.5	74.2
Financing activities:				
Distributions paid to unitholders	(20.5)	(20.6)	(82.1)	(78.9)
Issuance of Stapled Units on exercise of options	-	0.1	0.5	3.1
Issuance of Stapled Units, net	-	-	-	136.1
Forfeited distribution equivalent awards	-	-	-	0.1
Issuance of 7.0% debentures	-	129.4	65.8	129.4
Redemption of 6.5% debentures	-	-	(106.5)	-
Purchase for cancellation of 6.5% debentures	-	(18.5)	-	(18.5)
Revolving credit facilities	2.9	(36.5)	60.0	(50.0)
Overdraft facility	-	-	-	(3.6)
Non-revolving credit facility	-	(63.0)	-	(200.0)
Deferred debt issue costs	(0.7)	(1.6)	(1.4)	(1.6)
	(18.3)	(10.7)	(63.7)	(83.9)
Investing activities:				
Proceeds from sale of property, plant and equipment	4.5	0.3	11.4	17.5
Additions to property, plant and equipment	(1.0)	(5.5)	(18.0)	(11.5)
Other assets	2.3	2.0	4.8	4.7
	5.8	(3.2)	(1.8)	10.7
Increase (decrease) in cash	-	-	(1.0)	1.0
Cash, beginning of period	-	-	1.0	-
Cash, end of period	\$ -	\$ -	\$ -	\$ 1.0
Supplemental information:				
Interest paid	\$ 6.1	\$ 0.5	\$ 18.0	\$ 17.9
Income taxes paid	\$ 0.3	\$ 0.2	\$ 0.9	\$ 0.9

See accompanying notes to unaudited interim consolidated financial statements.

TIMBERWEST FOREST CORP.

Consolidated Statements of Unitholders' Equity

(in millions of dollars)
Unaudited

	Stapled Units		Contributed surplus	Retained earnings	Total unitholders' equity
	Number	Amount			
Balance, December 31, 2001	64,690,867	\$ 728.1	\$ -	\$ 788.5	\$ 788.5
Year ended December 31, 2002:					
Issuance of Stapled Units, net	11,190,650	138.9	-	138.9	138.9
Issuance of Stapled Units on exercise of options	311,291	3.1	-	3.1	3.1
Forfeited distribution equivalent awards	-	-	0.1	-	0.1
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 3)	-	-	-	26.7	26.7
Balance, December 31, 2002	76,192,788	870.1	0.1	44.6	914.8
Year ended December 31, 2003:					
Issuance of Stapled Units on exercise of options	53,334	0.5	-	-	0.5
Stapled Unit option awards	-	-	0.1	-	0.1
Net earnings	-	-	-	24.8	24.8
Interest on Series A Subordinate Notes	-	-	-	(82.1)	(82.1)
Income tax benefit thereon (note 3)	-	-	-	17.4	17.4
Balance, December 31, 2003	76,246,122	\$ 870.6	\$ 0.2	\$ 4.7	\$ 875.5

See accompanying notes to unaudited interim consolidated financial statements.

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Notes to Unaudited Interim Consolidated Financial Statements

For the three and twelve months ended December 31, 2003

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, 2002, except for a change in accounting for stock-based compensation transactions and a change the disclosure of cash flow and other per share information as detailed below. Certain figures for previous periods have been reclassified to conform to the current period's financial statement presentation.

2. Accounting Policy Changes

Stock-based compensation and other stock-based payments

Effective January 1, 2003, the Company changed its policy of accounting for Stapled Unit option awards in accordance with the recommendations of the Canadian Institute of Chartered Accountants ("CICA") Handbook Section 3870 – *Stock-based Compensation and Other Stock-based Payments*. Section 3870 establishes 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. It applies to transactions in which common shares, stock options or other equity instruments are granted or liabilities incurred based on the price of common shares or other equity instruments.

In fiscal 2002, the Company adopted the recommendations of Section 3870 in effect at that time and elected to continue with its previously established policy that no compensation cost was recorded on the grant of Stapled Unit options to directors, officers or employees who are in active service or employment of the Company or of any of its subsidiaries, and complied with the requirement to provide additional disclosure of the effect of stock-based awards on net income and earnings per Stapled Unit on a pro forma basis.

During 2003, Section 3870 was amended to require recognition of expenses for all employee stock-based compensation transactions, including awards of Stapled Unit options, for fiscal years beginning on or after January 1, 2004. The Company made the decision to early-adopt the amendments to Section 3870 and effective January 1, 2003, has recognized a stock-based compensation expense using the fair value method for all employee stock-based compensation transactions, including awards of Stapled Unit options entered into on or after January 1, 2003. The Company has elected to adopt the recommendations of Section 3870 on a prospective basis and has not applied the fair value based method of accounting to Stapled Unit options granted between January 1, 2002, and December 31, 2002.

Cash flow and other per share information

Effective June 30, 2003, the Company adopted the recommendations of the CICA Handbook Section 1540 – *Cash Flow Statements* and Section 3500 – *Earnings per Share*. Section 1540 and Section 3500 were amended during 2003, prohibiting the presentation of cash flow information on a per share basis in the financial statements, except for dividends or similar distributions in cash, paid or payable, to shareholders or unitholders.

In compliance with the amendments to Section 1540 and Section 3500, the Company will no longer be including separate statements of distributable cash as part of its financial statements. In addition, the Company will no longer be disclosing earnings information for the components of its equity instrument, the Stapled Unit, in its financial statements other than earnings attributable to the common share component on a per common share basis.

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Notes to Unaudited Interim Consolidated Financial Statements For the three and twelve months ended December 31, 2003

3. Income Taxes

	Three months ended December 31		Twelve months ended December 31	
	2003	2002	2003	2002
Current income tax expense				
Large corporation tax	\$ 0.3	\$ -	\$ 0.9	\$ 0.6
Income tax benefit on interest on Series A Subordinate Notes charged directly to distributions	1.5	9.2	17.4	26.7
	1.8	9.2	18.3	27.3
Future income tax expense (recovery)	0.5	(2.5)	-	(0.2)
	\$ 2.3	\$ 6.7	\$ 18.3	\$ 27.1

4. Earnings per Share

	Three months ended December 31		Twelve months ended December 31	
	2003	2002	2003	2002
Net earnings (loss)	\$ (0.7)	\$ 16.9	\$ 24.8	\$ 39.3
Less: Distributions on Series A Subordinate Notes	(20.5)	(20.5)	(82.1)	(81.8)
Tax benefit thereon	1.5	9.2	17.4	26.7
	(19.0)	(11.3)	(64.7)	(55.1)
Earnings (loss) attributable to common shares	(19.7)	5.6	(39.9)	(15.8)
Basic weighted average number of common shares	76,246,122	76,187,355	76,234,486	74,686,050
Incremental common shares from potential exercise of options	74,906	90,988	74,597	121,551
Diluted weighted average number of common shares	76,321,028	76,278,343	76,309,083	74,807,601
Basic and diluted earnings (loss) per common share	\$ (0.26)	\$ 0.07	\$ (0.52)	\$ (0.21)

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.

5. Property, plant and equipment

Property, plant and equipment at December 31, 2003, include \$1,218.4 million carrying value for private timberlands. This amount includes a valuation increase adjustment of \$390.8 million recorded in the year ended December 31, 2000, resulting from the adoption of Section 3465 – *Income Taxes* of the CICA Handbook, which was mandatory for fiscal years ending on or after January 1, 2000.

TIMBERWEST FOREST CORP.

Notes to Unaudited Interim Consolidated Financial Statements For the three and twelve months ended December 31, 2003

6. Revolving Credit Facilities

On March 3, 2003, the Company completed and received short-term financing from a Canadian bank in the amount of \$40.0 million pursuant to an unsecured 364-day committed revolving facility due on March 1, 2004. Under this facility, funds are available to the Company in both Canadian and US dollars by way of adjusted prime rate based loans, Canadian dollar bankers' acceptances and letters of credit or guarantee.

On May 28, 2003, the Company completed and received short-term financing from a Canadian bank in the amount of \$40.0 million pursuant to an unsecured 364-day committed revolving facility due on May 26, 2004. Under this facility, funds are available to the Company in both Canadian and US dollars by way of prime rate based loans, LIBOR loans, Canadian dollar bankers' acceptances and letters of credit or guarantee.

On June 27, 2003, the Company completed a two-year extension to its \$125.0 million unsecured revolving facility. This facility is now due on June 30, 2006, and continues to provide funding to the Company available in both Canadian and US dollars by way of adjusted prime rate based loans, bankers' acceptances, US rate based loans, LIBOR loans and letters of credit or guarantee.

As at December 31, 2003, the Company had borrowings of \$60.0 million on the Company's two \$40.0 million unsecured 364-day revolving facilities.

7. Debentures

	Maturity	As at December 31, 2003	As at December 31, 2002
7.0% debentures	October 1, 2007	\$ 195.0	\$ 130.0
6.5% debentures	March 3, 2003	-	106.5
		195.0	236.5
Less: due within one year		-	(106.5)
		\$ 195.0	\$ 130.0

The Company retired \$106.5 million aggregate principal amount of its 6.5% debentures when they matured on March 3, 2003.

On September 26, 2003, the Company added on to its existing debenture issue by completing a public offering of \$65.0 million aggregate principal amount of 7.0% unsecured senior debentures due October 1, 2007. The debentures were sold at 101.28% of their principal amount, with net proceeds to the Company of \$64.4 million. The Company also received accrued interest on the debentures from April 1, 2003, of \$2.2 million.

8. 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. Prior to January 1, 2003, the Company's policy was that no compensation cost was recorded on stock-based compensation awards granted to employees under this plan and now applies the fair value based method of accounting for all stock-based compensation transactions (see note 2). The Company has made this change in accounting policy on a prospective basis and has not applied the fair value based method of accounting to Stapled Unit options granted between January 1, 2002, and December 31, 2002.

The compensation cost for the 267,047 Stapled Unit options granted under the Stapled Unit Option Plan between January 1, 2003, and December 31, 2003, determined using the fair value method of accounting for stock-based compensation, is \$285,000. As this amount is amortized against earnings over the three-year vesting period of the underlying options, charges of \$24,000 and \$87,000 were recognized in net earnings for the three and twelve month periods ended December 31, 2003, respectively, with a corresponding credit to contributed surplus.

TIMBERWEST FOREST CORP.

Notes to Unaudited Interim Consolidated Financial Statements For the three and twelve months ended December 31, 2003

8. Stock-based Compensation Plans (continued)

The compensation cost for the 55,200 Stapled Unit options granted during the 2002 fiscal year, 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, would have been \$95,000. As this amount would be amortized against earnings over the three-year vesting period of the underlying options, there would have been no material adjustment to the Company's net earnings and earnings per common share reported for the three and twelve month periods ended December 31, 2003 (2002 – nil).

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:

	2003	2002
Risk-free interest rate	4.3%	5.7%
Expected life (years)	5.0	5.0
Expected volatility	25.3%	27.1%
Dividend yield	9.1%	8.2%
Number of options granted	267,047	55,200
Weighted average fair value of options granted	1.07	1.72

Consideration paid by option holders on the exercise of these options is recorded as an addition to Stapled Units.

Under the Company's Distribution Equivalent Plan, the Company awards Stapled Unit option holders an amount equal to actual distributions paid on the Company's Stapled Units. Awards granted under the Distribution Equivalent Plan vest under the same terms that apply to the corresponding options and can only be exercised at the time of exercise of the corresponding options.

The Company applies the principles of the fair value based method of accounting for stock-based compensation to awards granted under this plan. Awards are accrued on a basis equal to actual distributions paid on the Company's issued and outstanding Stapled Units and are charged to earnings as the underlying Stapled Unit options vest. For the three months ended December 31, 2003, \$0.3 million has been accrued for awards granted under this plan and \$0.3 million has been amortized against earnings for the quarter. For the twelve months ended December 31, 2003, \$1.2 million has been accrued for awards granted under this plan and \$1.1 million has been amortized against earnings.

During the quarter ended December 31, 2003, no Stapled Unit options were granted, no options were exercised and no options were cancelled. For the twelve months ended December 31, 2003, a total of 267,047 Stapled Unit options with exercise prices ranging from \$11.90 to \$12.28 and exercisable for a period of five years from grant date were granted, 53,334 Stapled Unit options with an exercise price of \$8.91 were exercised and 9,367 options with exercise prices ranging from \$12.84 to \$13.03 were cancelled.

9. Forestry Revitalization Plan

In March 2003, the Government of BC (the "Crown") introduced its Forestry Revitalization Plan (the "Plan"), which has subsequently been implemented, in part, through the *Forestry Revitalization Act*, the *Forest and Range Practices Act* and amendments to the *Forest Act* and *Forest Practices Code of British Columbia Act*. The Plan provides for significant changes to Crown forest policy and to the existing allocation of Crown timber harvesting rights to licencees. The changes in the Plan include the relaxing of cut control requirements, the elimination of appurtenancy and timber processing requirements, more flexibility to consolidate and subdivide forest tenures, increased freedom to transfer forest tenures without restriction or penalty and a market based stumpage system. As well, licencees, including the Company, have had their aggregate allowable annual cut attributable to Crown lands reduced by 20%, with the first 200,000 m³ exempt, as well as a 20% reduction in the area of Timber Licences held outside of Tree Farm Licences. The Plan states that approximately half of this volume will be redistributed to provide opportunities for woodlots, community forests and First Nations and the other half will be made available for public auction. The Crown has acknowledged that licencees will be fairly compensated for the value of lost harvesting rights and for improvements on Crown land.

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TIMBERWEST FOREST CORP.

Notes to Unaudited Interim Consolidated Financial Statements For the three and twelve months ended December 31, 2003

9. Forestry Revitalization Plan (continued)

TimberWest has been advised by the Ministry of Forests that it will be subject to a 200,000 m³ tenure takeback to be allocated such that 168,000 m³ will be taken back from TFL 46 and 32,000 m³ from TFL 47. While the total allowable annual cut has been identified for takeback, licencees have been notified that the identification of areas comprising this volume will not be completed until late 2004. Therefore, the Company will continue to operate on these TFLs according to its existing operating plans for 2004. In addition, while provisions for compensation have been made by the provincial government, the specifics will not be communicated until the areas have been identified. This takeback is not expected to have a material impact on TimberWest. The takeback on TFL 46 will not affect the pending sale of this Crown tenure.

10. Subsequent Event

On January 21, 2004, the Company signed a definitive agreement for the sale of its southern Vancouver Island public land operations, referred to as TFL 46. The sale is subject to several conditions and is expected to close during the first half of 2004. Sale proceeds on this transaction are expected to exceed the carrying value of the assets being disposed of.

TIMBERWEST FOREST CORP.

Supplemental Information

Unaudited

Three months ended
December 31

Twelve months ended
December 31

2003 2002

2003 2002

Sales by Product

(in millions of dollars)

Logs	\$ 69.8	\$ 103.3	\$ 340.1	\$ 378.2
Lumber	16.5	18.2	62.6	58.0
Wood chips and other	3.9	3.3	17.2	12.2
Real estate	2.1	0.1	8.6	16.5

	\$ 92.3	\$ 124.9	\$ 428.5	\$ 464.9
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Sales Volume

Logs (thousand m ³)	766.6	911.2	3,388.7	3,416.5
Lumber (million fbm)	32.3	32.6	133.3	115.3

Production Volume

Logs (thousand m ³)	718.3	969.1	3,132.6	3,559.9
Lumber (million fbm)	33.2	33.3	124.7	121.5

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

(in millions of dollars)

Net earnings (loss)	\$ (0.7)	\$ 16.9	\$ 24.8	\$ 39.3
Add:				
Interest expense	4.3	4.3	16.0	15.3
Loss on bond lock transaction	-	-	-	5.0
Income tax expense	2.3	6.7	18.3	27.1
Depreciation, depletion and amortization	2.5	3.2	9.8	11.5
Amortization of deferred financing costs	0.3	0.7	1.4	3.7

EBITDA	\$ 8.7	\$ 31.8	\$ 70.3	\$ 101.9
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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.

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 m³ of logs, are largely located on Vancouver Island and predominantly support the growth of Douglas fir forests, a premium species used for structural purposes. Third party auditors have certified that the management of the Company's private forest land conforms to the objectives and performance measures of the American Forest and Paper Association's Sustainable Forestry Initiative (SFI[®]). TimberWest also owns annual Crown harvest rights of 1.3 million m³ of logs and a lumbermill. In addition, approximately 6,000 hectares of the Company's private forest lands have been identified as having greater value as real estate properties and are progressively being made available for higher uses.

TimberWest Forest Corp.

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

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

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

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

