TimberWest

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FOURTH QUARTER INTERIM REPORT

For the three months ended December 31, 2001

TimberWest Forest Corp.

To our unitholders

Dear fellow unitholders:

I am pleased to report that, despite significant declines in both prices and domestic demand, we have delivered strong results in the fourth quarter of 2001, only slightly below the results of the same period in 2000. Year-to-date, TimberWest has generated $83.5 million of distributable cash, or $1.29 per Stapled Unit, exceeding the cash distributions paid to unitholders of $1.08 per unit.

We also delivered a strong safety performance in the fourth quarter and for the year. In fact, the Company reduced its lost-time accidents by 56 percent in 2001 compared to the previous year and reduced its Medical Incident Rate, an industry standard measure, to 6.69 from 14.50.

We concluded our strategic planning process in the quarter, which involved intense analysis of every aspect of TimberWest's business and its markets. We have developed the following goals:

- Enhance the performance of existing business units through operations excellence;
- Use operations excellence as the platform for future growth;
- Expand private timberland business in the longer term;
- Work proactively with government on tenure reform;
- Participate in conversion facilities where there is clear value to the fibre basket and there is economic return on capital employed; and
- Participate in real estate activity where it adds value.

We believe our strategic plan enhances our strengths and focuses the Company on areas for improvement. The Company has been a strong performer and this plan will make it stronger. In reflecting on where we have been, TimberWest's strong performance over the past three years is attributable primarily to our successful market diversification strategy and the resulting increase in log exports to Japan, the US West Coast and emerging Asian markets. Log export volumes have increased threefold since 1998. It was our ability to export logs that enabled us to keep most of our employees working in 2001, when all other coastal forest companies were taking extended downtime.

The gains that we have made to date in log exports have been excellent, but we do not believe further gains of a similar order of magnitude are possible. In addition, as we move increasingly into second growth stands, the trees we harvest are smaller and our end use sorts in the future will be different from our present sorts. As a result, focusing on operating performance improvements, quality and market diversification will be important.

It is clear that our priority must be to improve our performance in all of our businesses, and that means cost reductions and improved productivity.

Our private lands provide us with a unique and important advantage. We like this business, we are good at it and we want to grow it in the long term. The main business strategy in our core private timberland business will be to pursue "operations excellence". Our goal is to reduce our cost structure through increased mechanization, the restructuring of operations and facilities, process improvements, reduced overheads, productivity improvements and other cost reduction initiatives.

With operations excellence as the driving business strategy, the Company's focus will be to invest capital firstly in its existing core businesses. We will only consider acquiring additional private timberlands that provide geographic, market and product compatibility and are able to achieve targeted returns on capital.

In terms of the Company's sawmill at Campbell River, the Elk Falls Lumbermill, management has analysed strategic alternatives as part of its planning exercise. Our preferred course of action is to remain in the sawmill business so long as it adds value to the fibre basket and an economic return is earned on any capital employed. Elk Falls Lumbermill requires a major capital upgrade, but making this investment only makes sense if Elk can achieve profitable access to the US on terms equal to other Canadian mills (as part of a trade deal with the US in 2002) and a new partnership agreement can be concluded with labour to improve flexibility and lower costs. If these cannot be achieved, the Company will pursue other strategic options available to it.

On our public timberlands operation, we are working with all stakeholders — licensees, the IWA, the Truck Loggers Association and the provincial government — to find solutions and create a viable industry on the Coast. As landlord, the BC government has a significant role to play and has signalled that it is looking at major reforms to stumpage and tenure. In addition, the government is likely to eliminate appurtenancy (the stringent requirement that wood harvested from Crown land be manufactured at a local mill), cut control requirements and tenure claw-backs on change of control. Changes to utilization standards, the Forest Practices Code and contractor regulations are expected to be initiated by the province in 2002.

We are prepared to remain an active participant and commit to the public lands business. While government is making changes, it is not enough. All other stakeholders have a role to play in reducing costs and restoring viability.

TimberWest will be pro-active in this changing public lands environment while pursuing the same operations excellence strategy as on its private lands.

We are confident that by getting everyone in the Company to focus on operations excellence, we will create a stronger, more competitive company that will maximize returns to unitholders.

Thank you for your support.

On behalf of the Board of Directors

Paul J. McElligott
President and Chief Executive Officer

Vancouver, British Columbia
January 31, 2002

Management's Discussion and Analysis
For the three and twelve months ended December 31, 2001

The Management's Discussion and Analysis supplements, but does not form part of, the unaudited interim consolidated financial statements of TimberWest Forest Corp. ("TimberWest") and the notes thereto for the fourth quarter of 2001. This discussion and analysis provides an overview of significant developments that have impacted TimberWest's performance during the fourth quarter and year-to-date of 2001 relative to the fourth quarter and year-to-date of 2000, and that have impacted the Company's financial position as at December 31, 2001 relative to December 31, 2000. Factors that could impact future operations are also discussed. These factors may be impacted 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 2000 Annual Report.

Quarterly Financial Highlights

TimberWest generated distributable cash of $16.8 million, or basic and diluted distributable cash of $0.26 per weighted average Stapled Unit for the quarter ended December 31, 2001 compared to distributable cash of $18.5 million, or basic distributable cash of $0.29 per weighted average Stapled Unit and diluted distributable cash of $0.28 per weighted average Stapled Unit for the same period in 2000. Earnings available for distribution for the quarter, before provision for future income taxes and write-down of capital assets and related costs, were $7.7 million, or $0.12 per weighted average Stapled Unit compared to $13.8 million, or $0.21 per weighted average Stapled Unit for the same quarter in 2000. Net sales for the fourth quarter were $115.6 million, 6% lower than net sales of $123.3 million reported for the same period in 2000. Operating earnings were $15.9 million for the fourth quarter of 2001 compared to $20.7 million for the same quarter in 2000. EBITDA for the quarter ended December 31, 2001 was $17.8 million, or $0.27 per weighted average Stapled Unit compared to $23.4 million, or $0.36 per weighted average Stapled Unit for the same period in 2000. EBITDA does not have a standardized meaning prescribed by Canadian generally accepted accounting principles ("GAAP") and may not be comparable to similar measures provided by other companies. A reconciliation between net earnings as determined in accordance with GAAP and EBITDA is provided in the supplemental information appended to this interim report.

Year-to-Date Financial Highlights

For the year ended December 31, 2001, TimberWest generated distributable cash of $83.5 million, or basic and diluted distributable cash of $1.29 per weighted average Stapled Unit, compared to distributable cash of $89.2 million, or basic and diluted distributable cash of $1.34 per weighted average Stapled Unit for 2000. Earnings available for distribution before provision for future income taxes and write-down of capital assets and related costs were $58.8 million, or $0.90 per weighted average Stapled Unit in fiscal 2001, compared to $68.0 million, or $1.02 per weighted average Stapled Unit for 2000. Net sales for the 2001 fiscal year were $461.9 million, down 5% from net sales of $487.0 million in the prior year. Operating earnings for 2001 were $87.2 million compared to $96.2 million for 2000. EBITDA for the year ended December 31, 2001 was $100.6 million, or $1.55 per weighted average Stapled Unit compared to $109.1 million, or $1.64 per weighted average Stapled Unit for 2000.

Cash Distributions

On January 31, 2002, TimberWest announced a distribution of $0.269 per Stapled Unit, payable April 15, 2002 to unitholders of record on April 1, 2002. TimberWest distributed $69.9 million or $1.08 per Stapled Unit to unitholders in 2001, consistent with the $1.08 per Stapled Unit distributed in 2000. Since TimberWest's inception in July 1997, including the distribution paid on January 15, 2002, the Company has distributed $320.3 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, 2001 were $100.5 million, up 5% from log sales of $95.6 million for the quarter ended December 31, 2000. Despite adverse conditions in all markets, the Company was able to increase sales volumes into both the US and Japanese export markets compared with the fourth quarter of 2000. Log sales volumes increased by 14% over the comparative period in 2000, with log shipments for the three months ended December 31, 2001 of 927.7 mm^3 compared to 813.7 mm^3 for the fourth quarter of 2000. The combination of weak market pricing and end use sort mix resulted in average realizations on log sales of $108 per m^3 for the fourth quarter of 2001, down from average realizations of $117 per m^3 for the comparative quarter in 2000.

The impact of lower log sales realizations for the fourth quarter of 2001 relative to the comparative period of 2000 was partially mitigated by an improvement in TimberWest's logging cost of sales. Logging production volume for the quarter increased marginally over that for the comparative quarter in 2000, however, unit logging cost of sales fell to $77 per m^3 from $83 per m^3 for the comparative quarter in 2000. This decrease can be attributed to a combination of lower road construction costs, lower stumpage costs, the timing of logging activities and a reduction in the average cost of log purchases due to low market prices.

Log sales for the year ended December 31, 2001 were $378.4 million compared to $362.9 million for fiscal 2000, representing an improvement of 4%. This year-over-year increase in log sales is primarily the result of a 9% increase in log shipments in the current year, comprised of an 87% increase in the volume of sales to the US West Coast and a 32% increase in the volume of export sales to Asia, offset in part by a 6% decrease in domestic sales volumes. The benefit of increased sales volumes was partially offset by weaker market prices, with the domestic and export pricing off 7% and 5%, respectively, over the prior year. Average realizations on domestic sales in 2001 dropped to $94 per m^3, down from an average of $100 per m^3 for 2000. Average premiums on 2001 export sales fell 22% from the prior year, to $43 per m^3 from $55 per m^3 for fiscal 2000.

Lumber sales were $11.5 million for the quarter ended December 31, 2001, down from $19.9 million for the same period in 2000. This decrease is reflective of adverse market conditions and the closure of the Cowichan Lake Lumbermill earlier in the year, removing this facility's production from the lumber sales mix for 2001. These factors contributed to a 30% decrease in the volume of lumber sold in the fourth quarter of 2001 over the comparative period in 2000. Market weakness is evidenced by a 17% decrease in realizations on lumber sales, which fell to $454 per mfbm for the quarter ended December 31, 2001 from $550 per mfbm for the corresponding quarter of 2000.

Lumber sales for the year ended December 31, 2001 were also impacted by the closure of the Cowichan Lake Lumbermill, as well as by volatility in market demand and pricing, falling to $60.5 million compared to $96.0 million in 2000. Lumber shipments for 2001 were 130.2 million board feet, down 26% over the prior year. Lumber sales realizations for the year ended December 31, 2001 averaged $465 per mfbm, down 15% from sales realizations of $549 per mfbm for 2000, further contributing to the decline in lumber sales.

Financial Position

Working capital, excluding changes in the Company's credit facilities, decreased by $14.9 million during the quarter ended December 31, 2001, and increased by $13.4 million during the year ended December 31, 2001. The quarterly decrease is primarily due to a reduction in log inventory during the quarter, while the annual increase can be attributed to an increase in accounts receivable and prepaid expenses and a decrease in accounts payable and accrued liabilities over the prior year.

Capital assets as at December 31, 2001 were $1.9 million lower than at September 30, 2001, and $15.2 million lower than at December 31, 2000. These reductions are the result of provisions for depreciation, depletion and amortization and the sale of capital assets, partially offset by maintenance capital expenditures made during these periods.

As at December 31, 2001, TimberWest's consolidated debt was $378.6 million, comparable to a balance of $375.1 million as at December 31, 2000. At the end of 2001, consolidated debt consisted of $3.6 million drawn on the Company's overdraft facility, $200.0 million drawn on its non-revolving credit facility, $50.0 million drawn on its revolving credit facility and $125.0 million in debentures outstanding.

In the second quarter of 2001 the Company accepted a committed offer for unsecured long-term financing in the amount of $325.0 million. The offer was underwritten by two Canadian banks and consisted of two facilities, a $200.0 million non-revolving facility and a $125.0 million revolving facility. The facilities closed on July 10, 2001 and funded on July 12, 2001, at which time the Company drew on the new facilities to repay its operating loan of $60.0 million and its term loan of $201.8 million. Fees of $5.2 million were paid in connection with the refinancing and have been deferred and are being amortized against income over the term of the new credit facilities. As the non-revolving facility is due on December 31, 2002, it has been reflected as a current liability on the balance sheet at the end of the fiscal year.

On maturity, the Company anticipated refinancing its $200.0 million non-revolving facility through a combination of the debt, capital and equity markets. As disclosed in note 8 to the accompanying interim consolidated financial statements, on January 23, 2002 the Company announced it had entered into a bought deal financing agreement for the potential sale of up to 11,190,650 Stapled Units for maximum gross proceeds of $143.8 million. Net proceeds from this agreement, estimated to be a maximum of $136.3 million, will be used to reduce indebtedness of the Company under the $200.0 million non-revolving facility.

The Company's consolidated debt-to-equity ratio as at December 31, 2001 was 32:68, the same as at December 31, 2000. Total debt facilities available to the Company as at December 31, 2001 were $460.0 million.

During the quarter ended December 31, 2001, options to purchase 165,000 Stapled Units were exercised for proceeds of $1.5 million and options to purchase 20,000 Stapled Units were cancelled. In addition, during the fourth quarter of 2001 the Company made a decision to dissolve its Stapled Unit Incentive Plan. The incentive program was changed to an option program within the existing Stapled Unit Option Plan to provide for a more effective long-term incentive mechanism for management and to ensure that the objectives of management are aligned with those of the Company and unitholders. To facilitate this change, the Company purchased sufficient Stapled Units from incentive plan participants to settle participants' loan obligations to the Company under this plan. In this regard, the Company repurchased 521,135 Stapled Units at fair market value for return to treasury and cancellation. During fiscal 2001, options to purchase a total of 386,666 Stapled Units were exercised for proceeds of $3.4 million, options to purchase 20,000 Stapled Units were cancelled and 521,135 Stapled Units were purchased by the Company in connection with the dissolution of the Stapled Unit Incentive Plan, as noted above, for fair market value of $6.7 million. On a net basis, these transactions contributed to a decrease in unitholders' equity for the year ended December 31, 2001 of $3.3 million.

Cash Flow and Liquidity

Net cash generated from operations, before changes in non-cash working capital, for the three months ended December 31, 2001 was $12.6 million or $0.19 per weighted average Stapled Unit compared to $13.6 million or $0.21 per weighted average Stapled Unit for the corresponding quarter in 2000. For fiscal 2001, cash generated from operations, before changes in working capital, was $74.4 million compared to $79.9 million for 2000. Non-cash working capital decreased by $19.3 million during the fourth quarter of 2001 compared to a $9.9 million decrease during the same period in 2000. These decreases in non-cash working capital primarily reflect a decline in inventory and prepaid expense balances to seasonal levels. During the 2001 fiscal year, non-cash working capital increased by $13.8 million compared to a decrease of $9.8 million in 2000. The current year increase reflects an increase in accounts receivable and a decrease in accounts payable and accrued liabilities over the prior year. The 2000 decrease can be attributed to the decrease in accounts receivable, inventory and prepaid expense balances from December 31, 1999.

Net cash used for financing activities during the fourth quarter of 2001 was $36.0 million, an increase of $8.7 million over the same quarter in 2000. This change reflects a decrease in the Company's consolidated debt during the fourth quarter of 2001 of $19.3 million compared to a $9.9 million decrease in the comparable quarter in 2000. The fourth quarter distribution of $0.269 per Stapled Unit paid to unitholders in 2001 was the same as that paid in the prior year, however, the total amount paid was slightly higher as there were more Stapled Units outstanding at the end of the third quarter in 2001 than at this time in 2000. Net cash used in financing activities for fiscal 2001 was $68.2 million, $23.5 million less than cash used in financing activities in 2000. This variance can primarily be attributed to the Company's repurchase of 4.8 million Stapled Units in 2000 pursuant to a substantial issuer bid for an outlay of $51.8 million. Distributions paid to unitholders in 2001 were $69.9 million, slightly less than the $73.0 million paid in 2000 due to fewer Stapled Units outstanding during 2001. Other notable financing transactions for 2001 include the receipt of $3.4 million for Stapled Units issued on exercise of Stapled Unit options and the payment of fees of $5.2 million in connection with the debt refinancing described previously.

Net cash provided by investing activities was $4.1 million in the fourth quarter of 2001, an increase of $0.3 million over the same quarter in 2000. Capital expenditures, proceeds from the sale of capital assets and changes in other assets during the quarter ended December 31, 2001 were comparable to those for the corresponding period in 2000. For the 2001 fiscal year, net cash provided by investing activities was $7.6 million, $5.6 million more than cash provided by investing activities in 2000. This variance is primarily due to a decrease in capital spending and an increase in sales of higher use properties during 2001 compared to the 2000 fiscal year.

In connection with the wind-up of the Company's Stapled Unit Incentive Plan discussed previously, during the fourth quarter of 2001 the Company issued promissory notes payable to incentive plan participants for a total of $6.7 million to reflect the Company's purchase of Stapled Units from participants to settle outstanding Stapled Unit purchase loans receivable under this plan. The promissory notes payable have been offset against Stapled Unit purchase loans receivable. This transaction has been accounted for as a non-cash financing and investing activity in the consolidated statements of cash flows.

Normal Course Issuer Bid

Pursuant to a normal course issuer bid, TimberWest may repurchase, in the open market through the facilities of the Toronto Stock Exchange, up to 3,252,350 Stapled Units, representing approximately 5% of the Company's issued and outstanding Stapled Units as of the date of acceptance of the bid, in the 12 months commencing October 29, 2001. As at December 31, 2001 TimberWest has not repurchased any of its Stapled Units through this instrument.

Final Results from Normal Course Issuer Bid

Pursuant to a normal course issuer bid that expired at midnight on July 6, 2001, TimberWest was in a position to repurchase up to 3,241,267 Stapled Units of the issued and outstanding Stapled Units of the Company through the facilities of the Toronto Stock Exchange. TimberWest did not repurchase any of its Stapled Units through this instrument.

Outlook

TimberWest anticipates the first half of 2002 to be similar to the last half of 2001, with business conditions improving during the second half of the year. Conditions in the forest industry are expected to remain weak during the first half of 2002 with industry analysts predicting improving conditions during the back half of the year. The US economy is expected to come out of its recession mid-year with the impact of both fiscal and monetary policy taking effect. Japan is expected to remain under economic conditions similar to those that prevailed in 2001. Global pulp and paper markets are expected to improve during the latter part of 2002.

Despite weak economic conditions in the US, housing starts have remained strong finishing 2001 at 1.61 million. 2002 has begun with overall housing starts down slightly, however, January 2002 single-family housing starts are reported to be up four percent and building permits up three percent over the prior year. Economic reports indicate this strength in housing starts is attributable to record low mortgage rates. This level of activity is expected to continue through the year, with housing starts in the range of 1.55 to 1.65 million forecast for 2002. However, even with US housing starts strong, prices are expected to remain weak as lumber markets are anticipated to remain fundamentally oversupplied. As well, the Canada-US Softwood Lumber negotiations will continue into 2002 and, while resolution is anticipated this year, the timing of resolution is unclear. With resolution should come additional price support later in the year for the lumber markets.

Japan continues its economic malaise. Economists do not predict any appreciable change in this market during 2002, with housing starts, in particular, anticipated to be about 1.17 million, continuing to run approximately 6% below the historical five-year average. In addition, though the Japanese yen showed some strength against the Canadian dollar in 2001, the overall economic weakness in Japan and continued global economic uncertainty suggest that this movement may not continue beyond the first half of 2002. Changes are occurring in this market, but very slowly. Overall, another year of similar demand is expected.

Finally, global pulp markets are going into 2002 with inventories in fairly good shape, suggesting further deterioration in pricing is unlikely.

As in previous years, TimberWest will use the flexibility of its asset base, its market diversity and its pursuit of operations excellence to deliver strong results to unitholders.

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

	For the three months ended December 31		For the twelve months ended December 31	
	2001	2000	**2001**	2000
Net earnings for the period	**$ 1.5**	$ 118.8	**$ 44.6**	$ 204.9
Income tax benefit related to distributions	**6.0**	13.9	**29.4**	32.6
Earnings available for distribution	**7.5**	132.7	**74.0**	237.5
Future income tax expense (recovery) (note 4)	**0.2**	(120.2)	**(15.2)**	(170.8)
Write-down of capital assets and related costs	**-**	1.3	**-**	1.3
Earnings available for distribution before provision for future income taxes and write-down of capital assets and related costs	**7.7**	13.8	**58.8**	68.0
Add (deduct):				
Depreciation, depletion and amortization	**4.7**	4.2	**17.0**	17.1
Proceeds from sale of capital assets	**2.2**	3.5	**12.4**	11.3
Proceeds from sale of other assets	**-**	-	**-**	4.2
Gain on sale of capital assets	**(0.1)**	(0.2)	**(2.5)**	(2.0)
Maintenance capital expenditures	**(2.8)**	(3.1)	**(7.3)**	(10.3)
Other non-cash items	**5.1**	0.3	**5.1**	0.9
	9.1	4.7	**24.7**	21.2
Distributable cash	**$ 16.8**	$ 18.5	**$ 83.5**	$ 89.2
Basic distributable cash per weighted average Stapled Unit	***$ 0.26***	*$ 0.29*	***$ 1.29***	*$ 1.34*
Diluted distributable cash per weighted average Stapled Unit	***$ 0.26***	*$ 0.28*	***$ 1.29***	*$ 1.34*
Cash distributions paid per Stapled Unit	***$ 0.27***	*$ 0.27*	***$ 1.08***	*$ 1.08*
Stapled Units outstanding at the end of the period (000's)	***64,691***	*64,825*	***64,691***	*64,825*

Quarterly Comparison of Distributable Cash

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

See accompanying notes to unaudited interim consolidated financial statements.

TIMBERWEST FOREST CORP.

Consolidated Balance Sheets
(in millions of dollars)

	As at December 31, 2001 (Unaudited)		As at December 31, 2000	
Assets				
Current assets:				
Accounts receivable	**$**	**32.1**	$	26.5
Inventories		**54.2**		55.2
Prepaid expenses and other current assets		**2.3**		0.8
Future income taxes		**3.0**		3.5
		91.6		86.0
Capital assets, net		**1,369.1**		1,384.3
Other assets		**26.5**		35.0
	$	**1,487.2**	$	1,505.3
Liabilities and Unitholders' Equity				
Current liabilities:				
Overdraft facility (note 3)	**$**	**3.6**	$	7.3
Non-revolving credit facility (note 3)		**200.0**		-
Operating loan (note 3)		**-**		41.0
Bank term loan (note 3)		**-**		201.8
Accounts payable and accrued liabilities		**41.2**		48.9
Distribution payable		**17.4**		17.5
		262.2		316.5
Revolving credit facility (note 3)		**50.0**		-
Debentures		**125.0**		125.0
Long-term silviculture liability		**4.9**		4.3
Non-pension post-retirement benefits		**22.7**		22.2
Future income taxes		**233.9**		249.6
		698.7		717.6
Unitholders' equity				
Stapled Units, consisting of Series A Subordinate Notes, preferred shares and common shares		**728.1**		731.4
Retained earnings		**60.4**		56.3
		788.5		787.7
	$	**1,487.2**	$	1,505.3

Subsequent event (note 8)

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*	**For the three months ended December 31**		For the twelve months ended December 31	
	2001	2000	**2001**	2000
Cash provided by (used in):				
Operating activities:				
Earnings before income taxes	**$ 7.9**	$ 12.6	**$ 60.2**	$ 67.5
Cash income taxes	**(0.2)**	(0.1)	**(1.4)**	(0.8)
	7.7	12.5	**58.8**	66.7
Items not involving cash:				
Depreciation, depletion and amortization	**4.7**	4.2	**17.0**	17.1
Gain on sale of capital assets	**(0.1)**	(0.2)	**(2.5)**	(2.0)
Other non-cash items	**0.3**	(4.2)	**1.1**	(3.2)
Write-down of capital assets and related costs	**-**	1.3	**-**	1.3
	12.6	13.6	**74.4**	79.9
Changes in non-cash working capital:				
Accounts receivable	**0.5**	5.7	**(5.6)**	5.7
Inventories	**16.8**	8.6	**1.0**	3.9
Prepaid expenses and other current assets	**2.2**	4.1	**(1.5)**	1.3
Accounts payable and accrued liabilities	**(0.2)**	(8.5)	**(7.7)**	(1.1)
	31.9	23.5	**60.6**	89.7
Financing activities:				
Issuance of Stapled Units	**1.5**	-	**3.4**	-
Purchase of Stapled Units for return to treasury	**-**	-	**-**	(51.8)
Increase (decrease) in overdraft facility	**(4.7)**	4.1	**(3.7)**	2.1
Increase in non-revolving credit facility	**-**	-	**200.0**	-
Increase (decrease) in revolving credit facility	**(14.6)**	-	**50.0**	-
Increase (decrease) in operating loan	**-**	(14.0)	**(41.0)**	31.0
Decrease in term loan	**-**	-	**(201.8)**	-
Deferred debt issue costs	**(0.7)**	-	**(5.2)**	-
Distributions paid to unitholders	**(17.5)**	(17.4)	**(69.9)**	(73.0)
	(36.0)	(27.3)	**(68.2)**	(91.7)
Investing activities:				
Maintenance capital expenditures	**(2.8)**	(3.1)	**(7.3)**	(10.3)
Proceeds from sale of capital assets	**2.2**	3.5	**12.4**	11.3
Decrease in other assets	**4.7**	3.4	**2.5**	1.0
	4.1	3.8	**7.6**	2.0
Increase in cash	**-**	-	**-**	-
Cash, beginning of period	**-**	-	**-**	-
Cash, end of period	**$ -**	$ -	**$ -**	$ -
Supplemental information:				
Purchase of Stapled Units for return to treasury, a non-cash financing and investing activity (note 6)	**$ 6.7**	$ -	**$ 6.7**	$ -
Interest paid	**$ 2.9**	$ 4.3	**$ 23.4**	$ 23.5
Income taxes paid	**$ 0.2**	$ 0.2	**$ 1.2**	$ 1.8

See accompanying notes to unaudited interim consolidated financial statements.

TIMBERWEST FOREST CORP.

Consolidated Statements of Operations

(in millions of dollars, except per common share amounts)
Unaudited

	For the three months ended December 31		For the twelve months ended December 31	
	2001	2000	**2001**	2000
Net sales	**$ 115.6**	$ 123.3	**$ 461.9**	$ 487.0
Operating costs and expenses:				
Cost of products sold	**93.4**	95.2	**346.3**	363.1
Depreciation, depletion and amortization	**2.9**	3.3	**13.4**	13.6
Selling, administrative and other	**3.4**	4.1	**15.0**	14.1
	99.7	102.6	**374.7**	390.8
Operating earnings	**15.9**	20.7	**87.2**	96.2
Interest expense	**5.2**	6.6	**23.4**	24.5
Amortization of debt issue costs	**1.8**	0.9	**3.6**	3.5
Other expense (income)	**1.0**	(0.7)	-	(0.6)
Write-down of capital assets and related costs	-	1.3	-	1.3
	8.0	8.1	**27.0**	28.7
Earnings before income taxes	**7.9**	12.6	**60.2**	67.5
Income tax expense (recovery) (note 4)	**6.4**	(106.2)	**15.6**	(137.4)
Net earnings for the period	**$ 1.5**	$ 118.8	**$ 44.6**	$ 204.9
Net earnings per common share (note 5)				
Basic earnings (loss) per common share	***$ (0.15)***	*$ 1.78*	***$ 0.06***	*$ 2.49*
Diluted earnings (loss) per common share	***$ (0.15)***	*$ 1.77*	***$ 0.06***	*$ 2.48*

Consolidated Statements of Unitholders' Equity

(in millions of dollars)
Unaudited

	Stapled Units		Retained earnings (distributions in excess of earnings)	Total unitholders' equity
	Number	Amount		
For the twelve months ended December 31, 2001				
Balance December 31, 2000	64,825,336	$ 731.4	$ 56.3	$ 787.7
Issuance of Stapled Units on exercise of options	386,666	3.4	-	3.4
Purchase of Stapled Units for return to treasury (note 6)	(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	-	-	29.4	29.4
Balance, December 31, 2001	**64,690,867**	**$ 728.1**	**$ 60.4**	**$ 788.5**
For the twelve months ended December 31, 2000				
Balance December 31, 1999	69,608,360	$ 783.2	$ (109.3)	$ 673.9
Purchase of Stapled Units for return to treasury	(4,783,024)	(51.8)	-	(51.8)
Net earnings	-	-	204.9	204.9
Interest on Series A Subordinate Notes	-	-	(71.9)	(71.9)
Income tax benefit thereon	-	-	32.6	32.6
Balance, December 31, 2000	64,825,336	$ 731.4	$ 56.3	$ 787.7

See accompanying notes to unaudited interim consolidated financial statements.

Notes to Unaudited Interim Consolidated Financial Statements
For the three months ended December 31, 2001

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, 2000, except for those standards which 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 Changes

Earnings per Share
Effective January 1, 2001, the Company adopted the new CICA Handbook Section 3500 – *Earnings per Share* which became effective on that date. This new Section harmonizes Canadian requirements for public companies with US and international accounting standards. Basic and diluted earnings per share figures for net income are to be presented. Both figures are to be presented with equal prominence on the face of the income statement, regardless of the size of any difference between the two amounts. The treasury stock method is to be used, instead of the current imputed earnings approach, for determining the dilutive effect of warrants and options. In addition, a reconciliation of the numerator and denominator used in the calculation is to be provided in the notes to the financial statements (see note 5).

Distributable Cash
TimberWest's financial statements include disclosures of "distributable cash" and "basic and diluted distributable cash per weighted average Stapled Unit". Distributable cash is a cash flow measure that is not required disclosure under GAAP and may not be comparable to similar measures provided by other companies. The Company's Consolidated Statements of Distributable Cash provide a reconciliation between net earnings as determined in accordance with GAAP and distributable cash as defined herein. Basic and diluted distributable cash per weighted average Stapled Unit is computed on a basis consistent with that prescribed by GAAP for computing earnings per share as applied to the Company's Stapled Units and components thereof per note 5.

During the fourth quarter of 2001, TimberWest completed its strategic planning process, ushering in a new phase in the Company's growth where expenditures to bring about a restructuring of operations and new investment in business are anticipated. A review of the definition of distributable cash was undertaken to ensure that the impact of future strategic and developmental expenditures are properly accounted for in computing distributable cash, and to ensure that the benefits and costs of these initiatives are appropriately matched to provide unitholders with a consistent view of distributable cash.

As a result of this review, the definition of distributable cash was amended to codify basic adjustments to net earnings in the computation of distributable cash. Effective for the fiscal year ended December 31, 2001, the Company's definition of distributable cash is as follows:

> *Distributable cash includes consolidated earnings before income taxes less current income taxes plus depreciation, depletion and amortization, plus proceeds from the sale of capital assets net of their gain (loss) on sale, less maintenance capital expenditures and from time-to-time adjustments for other items deemed appropriate by the Board of Directors.*

One of the key changes to this definition is the distinction between maintenance capital expenditures (major renewals and improvements) and development capital expenditures (upgrades and expansions) and other strategic expenditures. Under the new definition, the cost of development capital and strategic expenditures will not be deducted in computing distributable cash when incurred, however, to reflect the matching of benefits from these

2. Accounting Policy Changes (continued)

expenditures with their cost, repayments on amounts borrowed to finance development capital and strategic expenditures will be deducted in the computation of distributable cash over the term of financing. This change documents the Company's intent to fund expenditures of a strategic and expansionary nature from sources other than current business operations (e.g. to be funded from new long-term debt or equity), and will provide a more consistent view of distributable cash and the management discipline to achieve these benefits.

The second key change to this definition is the delegation of authority for approval of discretionary adjustments in the computation of distributable cash to the Board of Directors, rather than approval by management as per the previous definition.

Capital Assets

As noted previously, the completion of the Company's strategic planning process has resulted in the Company distinguishing between maintenance capital expenditures and development capital expenditures. Maintenance capital expenditures are defined as incremental capital expenditures incurred for a substantial betterment, renewal or improvement of existing assets beyond normal maintenance and repair. Development capital expenditures are defined as capital expenditures incurred for major upgrades to existing assets and/or for acquisition of new assets in the course of the development or expansion of business opportunities.

Only maintenance capital expenditures will be deducted from net earnings in computing distributable cash. The cost of development capital expenditures will not be deducted in computing distributable cash when incurred, however, to reflect the matching of benefits from these expenditures with their cost, repayments on amounts borrowed to finance development capital expenditures will be deducted in the computation of distributable cash over the term of financing. This will provide a more consistent view of distributable cash and the management discipline to achieve these benefits.

3. Credit Facilities

In the second quarter of 2001, the Company completed and received long-term financing in the amount of $325.0 million pursuant to unsecured credit facilities consisting of a $125.0 million revolving facility due on June 30, 2004, and a $200.0 million non-revolving facility due on December 31, 2002. Under these facilities, funds are available to the Company in both Canadian and US dollars by way of adjusted prime rate-based loans, bankers acceptances, US base rate-based loans, LIBOR loans and letters of credit or guarantees. The credit facilities have been co-underwritten by two Canadian chartered banks. The Company repaid outstanding balances on its operating loan of $60.0 million and its term loan of $201.8 million on the funding of the new financing early in the third quarter.

At December 31, 2001, drawings on available credit facilities included $3.6 million under the overdraft facility, $200.0 million under the non-revolving facility, and $50.0 million under the revolving facility.

4. Income Taxes

Income tax expense (recovery) consists of:

	For the three months ended December 31		For the twelve months ended December 31	
(in millions of dollars)	**2001**	2000	**2001**	2000
Current income tax:				
Large corporation tax	**$ 0.2**	$ 0.1	**$ 1.4**	$ 0.8
Income tax benefit on interest on Series A Subordinate Notes charged directly to distributions	**6.0**	13.9	**29.4**	32.6
	6.2	14.0	**30.8**	33.4
Future income tax:	**0.2**	(120.2)	**(15.2)**	(170.8)
	$ 6.4	$ (106.2)	**$ 15.6**	$ (137.4)

4. Income Taxes (continued)

On July 30, 2001, the provincial government of British Columbia announced that it was lowering the provincial corporate tax rate by 3%. Under Section 3465 of the CICA Handbook, future tax assets and liabilities are adjusted to reflect the effects of enacted or substantively enacted changes in tax rates. The effect of changes in tax rates is credited to income as part of future income tax recovery in the period in which the changes are substantively enacted. The provincial tax rate change enacted in 2001 resulted in a non-cash future income tax recovery of $19.2 million being recorded during the third quarter of 2001, and a corresponding decrease in the future income tax liability as at December 31, 2001.

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

(in millions of dollars, except per Stapled Unit amounts)	**For the three months ended December 31**		For the twelve months ended December 31	
	2001	2000	**2001**	2000
Net Earnings:				
Net earnings	**$ 1.5**	$ 118.8	**$ 44.6**	$ 204.9
Less: Distributions on Series A Subordinate Notes	**(17.5)**	(17.4)	**(69.9)**	(71.9)
Tax benefit thereon	**6.0**	13.9	**29.4**	32.6
	(11.5)	(3.5)	**(40.5)**	(39.3)
Earnings (loss) attributable to common shares	**(10.0)**	115.3	**4.1**	165.6
Earnings available for distribution attributable to Series A Subordinate Notes	**17.5**	17.4	**69.9**	71.9
Earnings available for distribution attributable to Stapled Units	**$ 7.5**	$ 132.7	**$ 74.0**	$ 237.5
Weighted Average Number of Stapled Units:				
Basic weighted average number of Stapled Units	**65,034,706**	64,825,336	**64,984,389**	66,589,566
Incremental Stapled Units from potential exercise of options	**172,708**	144,363	**143,710**	95,569
Diluted weighted average number of Stapled Units	**65,207,414**	64,969,699	**65,128,099**	66,685,135
Per Stapled Unit Amounts:				
Basic earnings (loss) per common share	**$ (0.15)**	$ 1.78	**$ 0.06**	$ 2.49
Basic earnings available for distribution per Series A Subordinate Note	**0.27**	0.27	**1.08**	1.08
Basic earnings available for distribution per Stapled Unit	**$ 0.12**	$ 2.05	**$ 1.14**	$ 3.57
Diluted earnings (loss) per common share	**$ (0.15)**	$ 1.77	**$ 0.06**	$ 2.48
Diluted earnings available for distribution per Series A Subordinate Note	**0.27**	0.27	**1.08**	1.08
Diluted earnings available for distribution per Stapled Unit	**$ 0.12**	$ 2.04	**$ 1.14**	$ 3.56

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

6. Stock-Based Compensation Plans

The Company has a Stapled Unit Option Plan for directors, officers and selected employees of the Company. During the quarter ended December 31, 2001, a total of 1,058,440 Stapled Unit options were granted, including 58,340 options with an exercise price of $11.67 and exercisable until October 18, 2006, 126,000 options with an exercise price of $12.72 and exercisable until November 23, 2006, 223,800 options with an exercise price of $12.84 and exercisable until December 2, 2006, and 650,300 options with an exercise price of $13.03 and exercisable until December 13, 2006. During the quarter ended December 31, 2001 a total of 165,000 Stapled Unit options granted under the option plan with an exercise price of $8.91 were exercised and 20,000 options granted under the option plan with an exercise price of $8.91 were cancelled. During the twelve months ended December 31, 2001, 1,208,440 Stapled Unit options were granted at exercise prices ranging from $10.71 to $13.03 per Stapled Unit and with expiry dates ranging from October 18, 2006 to January 31, 2011. During 2001, 386,666 Stapled Unit options with an exercise price of $8.91 were exercised and 20,000 options with an exercise price of $8.91 expired.

During the quarter ended December 31, 2001, the Company made the decision to discontinue its Stapled Unit Incentive Plan. The incentive program was changed to an option program within the existing Stapled Unit Option Plan to provide for a more effective long-term incentive mechanism for management and to ensure that the objectives of management are aligned with those of the Company and unitholders. To facilitate the transition of the incentive program into the existing Stapled Unit Option Plan, the Company purchased sufficient Stapled Units from incentive plan participants to settle Stapled Unit purchase loans outstanding under the incentive plan. In this regard, during the fourth quarter of 2001, the Company purchased, at fair market value, 521,135 Stapled Units for return to treasury and cancellation. As a further transitional measure, incentive plan participants were granted an additional 708,640 Stapled Unit options under the Stapled Unit Option Plan as detailed above.

7. Financial Instruments

The Company realizes a significant portion of it sales in foreign currencies, principally US dollars, and enters into various types of foreign exchange instruments in managing its foreign exchange risk. At December 31, 2001, the Company had entered into forward exchange contracts to sell an aggregate of US$6.0 million at an average rate of 1.5445 expiring at various dates through February 2002, and Canadian dollar call options totalling US$12.0 million with an average strike price of 1.5291 expiring at various dates through March 2002. At December 31, 2001 the forward exchange contracts had an unrecognized mark-to-market loss of $0.3 million and the call options had an unrecognized mark-to-market loss of $0.2 million. These amounts will offset foreign exchange gains (losses) on US dollar revenues in the contract period.

8. Subsequent Event

On January 23, 2002, TimberWest announced that it had entered into a bought deal financing agreement with a syndicate of underwriters for sale of 7,785,000 Stapled Units at a price of $12.85 per Stapled Unit, for gross proceeds of $100.0 million. TimberWest has granted the underwriters an option to purchase up to an additional 1,946,000 Stapled Units, exercisable until 48 hours prior to the closing date. The offering is expected to close on or about February 12, 2002. The Company has also granted the underwriters an over-allotment option to purchase up to an additional 1,459,650 Stapled Units at the offering price, exercisable, in whole or in part, within 30 days following the closing date. The maximum gross amount of proceeds raised under the offering will be $143.8 million should both the underwriters’ option and over-allotment option be fully exercised.

Maximum net proceeds of the offering, should both the underwriters’ option and over-allotment option be fully exercised, are estimated to be $136.3. These funds will be used to reduce indebtedness under the Company’s non-revolving credit facility (note 3).

Supplemental Information *(in millions of dollars)* *Unaudited*	**For the three months ended December 31**		For the twelve months ended December 31	
	2001	2000	**2001**	2000
Sales by Product				
Logs	**$ 100.5**	$ 95.6	**$ 378.4**	$ 362.9
Lumber	**11.5**	19.9	**60.5**	96.0
Wood chips and other	**2.3**	4.4	**11.8**	16.9
Real estate	**1.3**	3.4	**11.2**	11.2
	$ 115.6	$ 123.3	**$ 461.9**	$ 487.0
Sales Volume				
Logs (*thousand* m^3)	**927.7**	813.7	**3,391.1**	3,107.6
Lumber (*million fbm*)	**25.4**	36.2	**130.2**	175.0
Production Volume				
Logs (*thousand* m^3)	**791.9**	775.2	**3,621.2**	3,526.4
Lumber (*million fbm*)	**25.7**	41.9	**111.4**	175.4
Earnings Before Interest, Taxes, Depreciation and Amortization (EBITDA)*				
Earnings before income taxes	**$ 7.9**	12.6	**60.2**	67.5
Add:				
Interest expense	**5.2**	6.6	**23.4**	24.5
Depreciation, depletion and amortization	**2.9**	3.3	**13.4**	13.6
Amortization of debt issue costs	**1.8**	0.9	**3.6**	3.5
EBITDA	**$ 17.8**	$ 23.4	**100.6**	$ 109.1

* 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 to 2.5 million m³ 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 m³ per year, a lumbermill, and about 6,500 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.

TimberWest