



Q-4

2005

**Fourth Quarter
Interim Report**

For the three and
twelve months ended
December 31, 2005



TIMBERWEST FOREST CORP.

To Our Unitholders,

TimberWest is pleased to report our distributable cash results for the fourth quarter of 2005. The Company generated \$29.7 million of distributable cash, or \$0.38 per Stapled Unit for the quarter, bringing distributable cash for the year to \$67.3 million or \$0.87 per unit. In 2004, the Company generated \$18.1 million or \$0.24 per unit in the fourth quarter and \$125.2 million or basic distributable cash of \$1.64 per unit and diluted distributable cash of \$1.63 per unit, on a weighted average basis, for the year. While results for the fourth quarter of 2005 were adversely affected by lower margins in the timberland segment compared to those in the equivalent prior year period, margins on lumber sales were higher. In addition, in the fourth quarter of 2005 the Company realized strong results from real estate sales at \$9.7 million, and also received a \$7.4 million payment in the quarter as the result of a tax recovery related to subsidiary companies. Excluding the tax recovery proceeds, TimberWest generated \$22.3 million of distributable cash, or \$0.29 per unit, for the quarter. At this time, we are pleased to confirm that TimberWest's next quarterly distribution of \$0.269 per Stapled Unit will be paid on April 15, 2006 to unitholders of record on April 1, 2006.

Log sales volumes were 39% higher in the fourth quarter of 2005 compared to the same period in 2004, with export volumes up 76% and domestic volumes up 16%. Fourth quarter logging revenues were 20% higher in 2005 compared to 2004, primarily due to the higher log sales volumes, though the positive effect of increased volumes was offset by a combination of factors, including a decline of approximately 14% in overall sales realizations attributable to weaker domestic markets and a weaker end use sort mix, as well as a stronger Canadian dollar. The Company had a much higher proportion of lower-value hemlock in its 2005 fourth quarter sales mix, with hemlock and balsam representing 33% of the mix compared to 18% in 2004. The increase in hemlock is the result of an initiative announced by the Company mid-year to increase its private land harvest by targeting low-margin, low-productivity stands. In addition to the high proportion of lower-value species, the sales mix also included a higher proportion of smaller diameter, and therefore less valuable, end use sorts.

On the BC coast, our domestic log customers continue to be challenged with a broad range of issues and the strong Canadian dollar has exacerbated this, resulting in considerable downtime and an increasing number of permanent sawmill closures. As a result, domestic log demand and sales realizations continue at low levels. Export growth is offsetting domestic market declines, with 2005 proving to be a record year for log export volumes. Unfortunately, log export sales are priced in US dollars and the strength of the Canadian dollar has resulted in realization declines that have more than offset the strength in pricing.

Timberland operating costs in the fourth quarter of 2005 were lower than those of the comparative period in 2004 and in fact, lower than the 2004 average. This is the result of a continued focus on costs throughout the entire organization and in the management of our contract workforce. Despite the continued efforts on managing costs, the Company has been challenged to keep pace with the appreciation in the Canadian dollar this year, which has placed downward pressure on our margins. While our Elk Falls sawmill had negative operating earnings for the year 2005, it benefited from stronger demand and pricing for lumber in the Japanese market in the fourth quarter.

As anticipated, real estate was a bright spot for us this quarter with proceeds of \$9.7 million from the sale of higher use properties. We continue to see buoyancy in both demand and pricing for real estate throughout most of Vancouver Island. TimberWest owns some spectacular real estate on Vancouver Island – property that rivals the beauty of prime real estate in jurisdictions around the world – yet it remains reasonably priced by global standards. We are just completing a strategic review of our real estate portfolio and expect that real estate will play a much bigger role in delivering value to our unitholders than it has in the past.

While we did not generate sufficient distributable cash to meet our distribution requirements for the year, we did achieve a number of very important objectives. We have continued to work toward being an unencumbered timberland company and creating increased value for unitholders. As such, contracting out harvesting and roadbuilding operations, divesting of facilities and equipment, terminating the Western Forest Products Inc. fibre supply agreement, reducing overhead costs and increasing the harvest of low-margin, low-productivity stands will all position TimberWest well for the future.

We continue to increase the volume of second-growth fibre in our harvest mix and with this comes a higher proportion of smaller diameter fibre. Our challenge for the future is to find the best markets for the changing profile of our forests and to harvest this fibre at the lowest cost possible.

An important factor in improving the values that we will receive for the smaller diameter fibre in our forest is the revitalization of the coastal sawmilling industry. While coastal restructuring is indeed underway, it has yet to enter its revitalization stage with the construction of new low-cost and technologically advanced sawmills to convert second-growth timber. We believe this will come with a trade deal that provides the coast with market access, lower costs and greater certainty over land use issues. While this restructuring is underway, we believe other

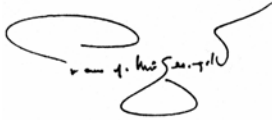
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jurisdictions will continue to provide us with premium pricing on smaller fibre than we could derive from domestic sawmillers.

Finally, on a more somber note, safety issues have plagued our industry and have affected some of the contractors working for TimberWest this year. This quarter, one of our contract falling companies experienced a fatality while working at one of our operations. This incident is of great concern to TimberWest, as we have always prided ourselves on our focus on safety. All of our long-term contractors and a portion of our short-term contractors have undergone comprehensive safety program audits in 2005. All deficiencies identified have corrective action plans associated with them with the goal of improving safety performance on our land base. For 2006, we will complete our audit program by having all of our remaining short-term contractors undergo TimberWest safety audits as well. The Company also actively supports and participates in the work of the BC Forest Safety Council. As a member of that organization, TimberWest will only employ safety certified contractors on our land base once the new safety certification program becomes fully operational. The Company looks forward to a better year for safety in 2006 at TimberWest and throughout our industry.

On behalf of the Board of Directors



Paul J. McElligott
President and Chief Executive Officer

Vancouver, British Columbia
February 8, 2006

TIMBERWEST FOREST CORP.

Management's Discussion and Analysis

For the three and twelve months ended December 31, 2005 and 2004

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

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

This management's discussion and analysis has been prepared based on information available as at February 8, 2006.

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

Distributable Cash

(in millions of dollars)	Three months ended December 31		Twelve months ended December 31	
	2005	2004	2005	2004
Net earnings (loss)	\$ 30.9	\$ (1.2)	\$ 4.8	\$ 23.7
Interest on Series A Subordinate Notes owned by unitholders	20.9	20.7	83.3	82.5
Earnings available for distribution	51.8	19.5	88.1	106.2
Future income tax recovery on earnings before extraordinary item	(27.5)	(6.3)	(38.1)	(12.4)
Future income tax expense on extraordinary item	–	–	–	5.0
Earnings available for distribution before provision for future income taxes	24.3	13.2	50.0	98.8
Add (deduct):				
Depreciation, depletion and amortization	2.3	2.6	9.5	11.2
Proceeds from sale of property, plant and equipment	9.8	12.0	42.8	33.3
Gain on sale of property, plant and equipment	(6.8)	(6.5)	(13.0)	(12.4)
Additions to property, plant and equipment	(0.1)	(4.0)	(22.6)	(8.5)
Other non-cash items	0.2	0.8	0.6	2.8
	5.4	4.9	17.3	26.4
Distributable cash	\$ 29.7	\$ 18.1	\$ 67.3	\$ 125.2
Consists of:				
Distributable cash before extraordinary item	\$ 29.7	\$ 18.1	\$ 67.3	\$ 111.2
Distributable cash from extraordinary item	–	–	–	14.0
	\$ 29.7	\$ 18.1	\$ 67.3	\$ 125.2
Cash distributions paid	\$ 20.8	\$ 20.6	\$ 83.1	\$ 82.3

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The following provides a reconciliation of cash flow from operations before changes in working capital to distributable cash:

<i>(in millions of dollars)</i>	Three months ended December 31		Twelve months ended December 31	
	2005	2004	2005	2004
Cash flow from operations before changes in working capital	\$ (0.6)	\$ (8.3)	\$ (34.5)	\$ 17.4
Add (deduct):				
Interest on Series A Subordinate Notes owned by unitholders	20.9	20.7	83.3	82.5
Proceeds from sale of property, plant and equipment	9.8	12.0	42.8	33.3
Additions to property, plant and equipment	(0.1)	(4.0)	(22.6)	(8.5)
Other non-cash items	(0.3)	(2.3)	(1.7)	0.5
	30.3	26.4	101.8	107.8
Distributable cash	\$ 29.7	\$ 18.1	\$ 67.3	\$ 125.2

Per Stapled Unit amounts:

<i>(in dollars)</i>	Three months ended December 31		Twelve months ended December 31	
	2005	2004	2005	2004
<i>Basic and diluted earnings available for distribution before provision for future income taxes per weighted average Stapled Unit</i>	\$ 0.31	\$ 0.17	\$ 0.65	\$ 1.29
<i>Basic distributable cash per weighted average Stapled Unit:</i>				
– before extraordinary item	\$ 0.38	\$ 0.24	\$ 0.87	\$ 1.46
– from extraordinary item	–	–	–	0.18
	\$ 0.38	\$ 0.24	\$ 0.87	\$ 1.64
<i>Diluted distributable cash per weighted average Stapled Unit:</i>				
– before extraordinary item	\$ 0.38	\$ 0.24	\$ 0.87	\$ 1.45
– from extraordinary item	–	–	–	0.18
	\$ 0.38	\$ 0.24	\$ 0.87	\$ 1.63
<i>Cash distributions paid per Stapled Unit</i>	\$ 0.27	\$ 0.27	\$ 1.08	\$ 1.08

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

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

Earnings available for distribution and distributable cash are measures that do not have a standardized meaning prescribed by GAAP and may not be comparable to similar measures presented by other companies. Management believes that the presentation of these measures will enhance an investor's understanding of the Company's operating performance. Reconciliation of net earnings and cash flow from operations before changes

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in working capital, as determined in accordance with GAAP, and earnings available for distribution and distributable cash are provided in the preceding tables.

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

	2005	2004	2003	2002	2001	2000
Distributable Cash						
<i>(in millions of dollars)</i>						
First quarter	\$ 23.9	\$ 27.7	\$ 25.7	\$ 21.2	\$ 25.9	\$ 28.4
Second quarter	15.4	43.5	4.7	10.6	26.7	28.2
Third quarter	(1.7)	35.9	12.0	34.1	14.1	14.1
Fourth quarter	29.7	18.1	9.0	24.2	16.8	18.5
	\$ 67.3	\$ 125.2	\$ 51.4	\$ 90.1	\$ 83.5	\$ 89.2
Distributable Cash per Stapled Unit						
<i>(in dollars)</i>						
First quarter	\$ 0.31	\$ 0.36	\$ 0.34	\$ 0.30	\$ 0.40	\$ 0.41
Second quarter	0.20	0.57	0.06	0.14	0.41	0.42
Third quarter	(0.02)	0.47	0.15	0.45	0.22	0.22
Fourth quarter	0.38	0.24	0.12	0.32	0.26	0.29
	\$ 0.87	\$ 1.64	\$ 0.67	\$ 1.21	\$ 1.29	\$ 1.34

Quarterly Financial Highlights

TimberWest generated distributable cash of \$29.7 million or basic and diluted distributable cash of \$0.38 per weighted average Stapled Unit for the three months ended December 31, 2005, compared to \$18.1 million or basic and diluted distributable cash of \$0.24 per weighted average Stapled Unit for the same period in 2004. The positive variance in distributable cash from the prior year period can primarily be attributed to higher operating earnings in the fourth quarter of 2005, as a result of higher log sales volumes. Proceeds from the sale of real estate for the quarter were \$9.7 million compared to \$7.5 million for the same period in 2004. Earnings available for distribution, before provision for future income taxes, for the fourth quarter of 2005 were \$24.3 million or \$0.31 per basic and diluted weighted average Stapled Unit compared to earnings available for distribution, before provision for future income taxes, of \$13.2 million or \$0.17 per basic and diluted weighted average Stapled Unit for the same quarter in 2004.

Sales for the fourth quarter of 2005 were \$132.8 million, greater than sales of \$114.9 million reported for the fourth quarter of 2004. Operating earnings were \$21.0 million compared to \$15.0 million for the same period in 2004, with the current year operating margin improving to 16%, up from 13% in 2004, reflecting the effect of the higher margins realized on the increased real estate sales for the current year. Earnings before interest, taxes, depreciation and amortization (EBITDA)¹ for the three months ended December 31, 2005, were \$26.5 million or \$0.34 per basic and diluted weighted average Stapled Unit compared to \$20.1 million or \$0.26 per basic and diluted weighted average Stapled Unit for the same period in 2004. The Company reported an income tax recovery of \$31.6 million for the three months ended December 31, 2005. This recovery is primarily non-cash, with the exception of a current income tax recovery of \$4.1 million related to the settlement of an appeal of a prior year income tax assessment. The remaining future income tax recovery of \$27.5 million includes a \$16.1 million future income tax recovery resulting from the implementation of a number of tax planning strategies with respect to the availability of non-capital losses and \$6.0 million related to adjustments to timberland tax values. Net earnings for the three months ended December 31, 2005 were \$30.9 million or basic and diluted net earnings of \$0.40 per weighted average common share, compared to a net loss of \$1.2 million or a basic and diluted net loss of \$0.02 per weighted average common share for the same period in 2004.

¹ EBITDA is a measure that does not have a standardized meaning prescribed by GAAP and may not be comparable to similar measures presented by other companies. Management believes that the presentation of this measure will enhance an investor's understanding of the Company's operating performance. A reconciliation of net earnings as determined in accordance with GAAP and EBITDA is provided in the supplemental information appended to this interim report.

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Year to Date Financial Highlights

TimberWest generated distributable cash of \$67.3 million or basic and diluted distributable cash of \$0.87 per weighted average Stapled Unit for the year ended December 31, 2005, compared to \$125.2 million or basic distributable cash of \$1.64 and diluted distributable cash of \$1.63 on a per weighted average Stapled Unit basis for 2004. The year-over-year decrease can be attributed to several items, including: lower operating earnings in 2005, reflecting lower average realizations on log and lumber sales compared to 2004; the payment of \$15.0 million or \$0.19 per Stapled Unit in 2005 to terminate a fibre supply agreement; the receipt in 2004 of cash proceeds of \$16.7 million or \$0.22 per Stapled Unit from the sale of TFL 46; and the receipt in 2004 of \$14.0 million or \$0.18 per Stapled Unit as settlement for the expropriation of timber harvesting rights. Also noteworthy are an atypically large number of property, plant and equipment transactions in both 2005 and 2004, including the buy-out of leases on company-operated logging equipment for \$21.0 million and the subsequent sale of this leased equipment and other company-owned logging equipment to long-term contractors for proceeds of approximately \$25.1 million as part of the 2005 business transformation initiative, and proceeds of \$16.7 million from the sale of TFL 46 in 2004. Proceeds from the sale of real estate for 2005 were \$13.9 million compared to \$10.8 million for 2004. Earnings available for distribution for the year ended December 31, 2005, before provision for future income taxes, were \$50.0 million or \$0.65 per basic and diluted weighted average Stapled Unit compared to \$98.8 million or \$1.29 per basic and diluted weighted average Stapled Unit for 2004.

Sales for the year ended December 31, 2005 were \$458.2 million compared to \$477.0 million for 2004. Operating earnings were \$70.1 million for 2005 compared to \$94.4 million for 2004. EBITDA for the year ended December 31, 2005, were \$71.9 million or \$0.93 per basic and diluted weighted average Stapled Unit compared to \$112.7 million or \$1.47 per basic and diluted weighted average Stapled Unit for 2004. The Company reported an income tax recovery of \$41.6 million for the year ended December 31, 2005. As with the fourth quarter of 2005, this recovery is primarily non-cash, with the exception of a current income tax recovery of \$4.1 million related to the settlement of an appeal of a prior year income tax assessment. The remaining future income tax recovery of \$38.1 million includes a \$16.1 million future income tax recovery resulting from the implementation of a number of tax planning strategies with respect to the availability of non-capital losses, a \$9.3 million future income tax recovery resulting from a 1.5% reduction in the British Columbia general corporate income tax rate enacted during the year and \$6.0 million related to adjustments to timberland tax values. The Company had net earnings of \$4.8 million, or basic and diluted net earnings of \$0.06 per weighted average common share, for the year ended December 31, 2005, compared to net earnings of \$23.7 million or basic and diluted net earnings of \$0.31 per weighted average common share for 2004. Net earnings for 2005 reflect the effects of a number of unique transactions, including: a \$15.0 million payment to terminate a fibre supply agreement with one of its customers; \$3.7 million received in the first quarter of 2005 as compensation for the loss of logging rights under the Forestry Revitalization Plan; a \$2.0 million restructuring charge taken in the second quarter of 2005 related to the Company's business transformation initiative; and a considerable income tax recovery reported for the year. Net earnings for 2004 include a \$14.0 million expropriation settlement received in that year and disclosed as an extraordinary item.

Highlights and Significant Transactions

Accounting Policy Change – Liabilities and Equity

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

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

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

Business Transformation

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



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

The Company completed the final phase of the business transformation initiative early in 2005. This involved the buy-out of leases on company-operated logging equipment for \$21.0 million, and the subsequent sale of this leased equipment and other company-owned logging equipment to long-term contractors for proceeds of approximately \$25.1 million. Other income for the year ended December 31, 2005 includes a gain on disposal of logging equipment of approximately \$4.0 million.

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

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

Timber Reallocation Agreement

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

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

Increase in Long Run Sustainable Harvest

On October 19, 2004, the Company announced an increase in the long run sustainable harvest on its private timberlands, from 2.3 million m³ to 2.5 million m³ on the basis of improvements in the underlying growth rates of the forest inventory due to yield increases from a range of silviculture practices.

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

To improve the value of the Company, TimberWest commenced an initiative in 2005 to further increase the harvest level on its private lands through improved forest management. This year and, markets permitting, over the next three to five years, the Company anticipates increasing private land harvests by about 500,000 m³, to approximately 3.0 million m³ per year. This additional harvest will come from low-margin, low-productivity stands. Where practicable, these stands will be re-established with better stock while others will be left to regenerate naturally. The Company has run this additional harvest volume through its growth and yield model which demonstrates that taking low-productivity stands out at a faster rate will have no material effect on the Company's long run sustainable yield over the next 50 years.

Termination of Fibre Supply Agreement

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

This transaction is expected to provide future benefits for the Company as it removes a further encumbrance and with this volume of logs now released and available for potential export, it will enable the Company to achieve maximum value for this fibre in the market.



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Sales Process for Elk Falls Lumbermill

While the Elk Falls Lumbermill has performed well in the context of the coastal BC industry, as part of a strategic review of TimberWest's assets undertaken in 2005, it was determined that the lumbermill may have a more logical owner. As a result, early in the fourth quarter of 2005, the Company commenced a sales process for the lumbermill. This process has continued into 2006.

Refinancing of Credit Facilities

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

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

On July 28, 2005, the Company entered into an additional long-term financing facility in the amount of \$100.0 million pursuant to an unsecured revolving facility underwritten by a syndicate of Canadian Chartered banks, due on July 27, 2010. Under this facility, funds are available to the Company in both Canadian and US dollars by way of adjusted prime rate-based loans, US base rate-based loans, bankers' acceptances, LIBOR loans and letters of credit or guarantee. On completion of this facility, both the Company's short-term unsecured committed revolving credit facility for \$40.0 million due on September 1, 2005 and the Company's long-term unsecured revolving credit facility for \$125.0 million due on December 31, 2006, were cancelled. The \$40.0 million revolving facility that was cancelled had a \$16.0 million bank guarantee facility attached to it. On July 28, 2005, this bank guarantee facility was renewed as a stand alone facility. The amount of this facility was increased to \$16.3 million, is due on June 30, 2006 and is subject to annual review and renewal.

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

Cash Distribution

On February 8, 2006, TimberWest announced a distribution of \$0.269 per Stapled Unit, payable April 15, 2006, to unitholders of record on April 1, 2006. From inception to December 31, 2005, the Company has generated distributable cash of \$664.1 million while, including the January 15, 2006 distribution of \$20.9 million, the Company has paid out \$650.1 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, 2005, were \$88.8 million, up 20% over log sales for the three months ended December 31, 2004. This increase reflects the combined effects of higher log sales volumes, totaling 990,100 m³, and lower log sales realizations, averaging \$90 per m³. Log sales volumes into all markets were greater than for the comparative period in 2004, most noteworthy was a 76% increase in log volumes sold into export markets, with domestic sales volumes up 16%. Increased export sales volumes in the current quarter reflect the Company's ongoing efforts in seeking opportunities in export markets to offset weakness in the domestic market. Overall log sales realizations were down compared to the same period in 2004, with domestic realizations off 13% and export market realizations off 14%. Export realizations continue to be negatively affected by the strength of the Canadian dollar. The Canadian dollar was approximately 4% stronger relative to the US dollar during the fourth quarter of 2005 compared to the fourth quarter of 2004. The timberland operations' operating margin for the quarter averaged 21% of log sales, compared to 24% for the comparative period in 2004. This unfavourable result can be attributed to lower average sales realizations for the quarter, which more than offset production cost improvements resulting from lower stumpage and reduced road building activity compared to the prior year period.

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Log sales for the year ended December 31, 2005, were \$327.9 million compared to log sales of \$337.6 million for 2004. The decrease from the prior year reflects the combined effects of an increase in the volume of logs sold, to 3,614,800 m³, and a decrease in overall log sales realizations, averaging \$91 per m³ for 2005. Export log sales volumes were 43% greater in 2005 than in 2004, more than offsetting a 6% decrease in domestic log sales volumes. Log sales realizations for 2005 were down in all markets, with both domestic and export market realizations off 17% compared to 2004. A weaker sales mix and a stronger Canadian dollar – some 7% stronger in 2005 relative to 2004 – were the key factors for lower realizations on export sales, despite higher pricing in some end markets. Log export sales are at realizations that are greater than would otherwise be realized in the domestic market. The operating margin from timberland operations averaged 26% of log sales for 2005, down from 32% for 2004. Once again, this unfavourable result can be attributed to lower average sales realizations in the year, the effect of which more than offset slightly more favourable production costs in 2005 compared to 2004.

Lumber sales for the three months ended December 31, 2005, of \$28.1 million were comparable to sales of \$28.5 million for the fourth quarter of 2004, reflecting the net effect of improved lumber sales realizations and lower sales volumes compared to the same period in 2004. In the fourth quarter of 2005, the lumbermill produced 44.1 million board feet of lumber, down approximately 10% compared to the volume produced in the fourth quarter of 2004.

Lumber sales for the year ended December 31, 2005, of \$92.2 million were lower than sales of \$106.2 million for 2004, reflecting lower realizations and a lower volume of lumber sold in the current year. Oversupplied lumber markets in Japan and the continued strength of the Canadian dollar both placed downward pressure on lumber sales realizations compared to 2004. Given these conditions, 2005 was a challenging year for the lumbermill, resulting in an operating loss for the year compared to a positive cash and earnings contribution in 2004. With five weeks of market related downtime taken in the second quarter of 2005, the lumbermill's production for the year was down 7% compared to 2004. However, despite the fact that no capital was invested in the mill in 2005, and despite higher operating supply costs, including fuel costs, the lumbermill was able to maintain per unit conversion costs at the 2004 levels.

Wood chip sales for both the three and twelve month periods ended December 31, 2005, of \$3.0 million and \$11.0 million, respectively, were both lower than for the comparative periods in 2004. 2005 fourth quarter results reflect lower average chip pricing due to a weaker species mix in chips produced on a comparable volume of wood chips available for sale, while year to date results reflect lower average chip pricing on a lower volume of chips primarily due to lower production at the lumbermill due to downtime taken in 2005.

Real estate activity for the fourth quarter of 2005 generated revenues of \$10.2 million compared to revenues of \$7.4 million for the fourth quarter of 2004. For 2005 real estate activity generated revenues of \$15.1 million, greater than the \$10.8 million generated in 2004. These results reflect the Company's efforts to realize the benefits of strong markets for real estate on Vancouver Island.

Financial Position

Current assets increased \$0.8 million to \$88.8 million at December 31, 2005, up from \$88.0 million as at December 31, 2004. Accounts receivable have increased and inventories have decreased, reflecting increased sales activity in the fourth quarter of 2005 relative to the same period in 2004. Prepaid and other current assets at the end of 2005 are greater than at the end of 2004, primarily due to higher amounts related to the increased real estate activity in the last quarter of 2005 relative to the prior year period.

Property, plant and equipment were \$1,318.4 million as at December 31, 2005, \$15.9 million less than as at December 31, 2004. This decrease primarily reflects the provision for depreciation on capital assets and the increased sales activity of higher and better use properties in 2005 compared to 2004. Both capital additions and disposals of property, plant and equipment were unusually high in 2005 as these figures include the cost of buying out leased logging equipment and the subsequent resale of this and other company-owned logging equipment to the Company's long-term contractors under the Company's business transformation initiative completed early in the year.

Other assets were \$11.9 million at December 31, 2005 and are comparable to the balance of \$12.2 million at December 31, 2004. Other assets are comprised primarily of prepaid pension benefits and deferred debt issue costs.

Current liabilities as at December 31, 2005, were \$51.0 million compared to \$78.2 million as at December 31, 2004. The variance from the prior year reflects the inclusion of borrowings on revolving credit facilities of \$22.0 million being included in the 2004 figure. As at December 31, 2005, these amounts have been reclassified from short-term to long-term as a result of new credit facilities entered into during the year. An overview of refinancing

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activities is provided in this management's discussion and analysis under "Highlights and Significant Transactions – Refinancing of Credit Facilities".

As at December 31, 2005, the Company had combined borrowings of \$37.0 million on its available credit facilities, including borrowings of \$7.0 million on its \$65.0 million long-term revolving facility and \$30.0 million on its \$100.0 million long-term revolving facility. In addition, the Company had commitments of \$15.9 million at December 31, 2005 relating to outstanding letters of credit issued under its \$16.3 million bank guarantee facility.

Long-term financial liabilities as at December 31, 2005, also included \$195.0 million aggregate principal amount of 7.0% unsecured senior debentures due October 1, 2007.

Other long-term liabilities at December 31, 2005 included a silviculture liability of \$3.2 million, a \$28.6 million liability relating to non-pension post-retirement benefits and a future income tax liability of \$184.9 million. The silviculture and non-pension post-retirement benefit liability balances are comparable to balances as at December 31, 2004. The future income tax liability has decreased by \$39.4 million from the balance at December 31, 2004. Most of this decrease can be attributed to the implementation of tax planning strategies with respect to the availability of non-capital losses which resulted in a \$16.1 million future income tax recovery in 2005. In addition, a 1.5% reduction in the British Columbia general corporate income tax rate was enacted during the year and was effective July 1, 2005, reducing the combined federal and provincial statutory corporate income tax rate from 35.6% to 34.1% and resulting in a further future income tax recovery of \$9.3 million.

As noted previously, effective January 1, 2005, the Company was required to adopt an amendment to CICA Handbook Section 3860 – *Financial Instruments: Disclosure and Presentation*. As a result of this amendment to Section 3860, the Series A Subordinate Note component of the Company's Stapled Unit is no longer presented as a component of equity and is now presented as a liability on the Company's consolidated balance sheets. As at December 31, 2005, the Series A Subordinate Note liability was \$695.7 million. Retroactive application of this accounting change has resulted in a \$690.5 million reclassification from equity to liabilities as at December 31, 2004. Additional information on this issue is provided in this management's discussion and analysis under the heading "Accounting Policy Change".

During the three months ended December 31, 2005, no Stapled Unit options were granted, options to purchase 212,490 Stapled Units were exercised for proceeds of \$2.7 million and no options were cancelled. During the year ended December 31, 2005, 348,998 Stapled Unit options were granted, options to purchase 580,554 Stapled Units were exercised for proceeds of \$7.1 million and 70,543 options were cancelled. As at February 8, 2006, the Company had 847,046 granted and outstanding Stapled Unit option awards and 77,496,004 issued and outstanding Stapled Units.

Cash Flow and Liquidity

Cash used in operations before changes in non-cash working capital for the three months ended December 31, 2005, was \$0.6 million or \$0.01 per weighted average Stapled Unit compared to \$8.3 million or \$0.11 per weighted average Stapled Unit in 2004. Cash used in operations before changes in non-cash working capital for the year ended December 31, 2005, was \$34.5 million or \$0.45 per weighted average Stapled Unit compared to cash provided by operations of \$17.4 million or \$0.23 per weighted average Stapled Unit in 2004. These results reflect the change in accounting policy for the Series A Subordinate Notes as described under "Accounting Policy Change" whereby interest thereon of \$20.9 million and \$83.3 million for the three and twelve month periods ended December 31, 2005, respectively, (2004 – \$20.7 million and \$82.5 million, respectively) are now presented as a use of cash flows under operating activities rather than under financing activities as a distribution. Cash provided by operations before changes in non-cash working capital and before distributions to unitholders was \$20.3 million or \$0.26 per Stapled Unit for the fourth quarter of 2005, compared to \$12.4 million or \$0.16 per Stapled Unit for the fourth quarter of 2004. Cash provided by operations before changes in non-cash working capital and before distributions to unitholders for 2005 and 2004 was \$48.8 million or \$0.64 per Stapled Unit and \$99.9 million or \$1.31 per Stapled Unit, respectively. During the fourth quarter of 2005, non-cash working capital decreased by \$4.0 million compared to a \$13.8 million increase reported for the same period in 2004. The current period decrease reflects the combined effect of a decrease in inventories and an increase in accounts payable and accrued liabilities compared to balances at September 30, 2005. For the year ended December 31, 2005, non-cash working capital increased \$7.1 million compared to a \$10.0 million increase for 2004. The current year increase reflects the net effect of an increase in accounts receivable, prepaid expenses and other working capital, and a decrease in accounts payable and accrued liabilities, offset in part by a decrease in inventories compared to balances at December 31, 2004.

Net cash used in financing activities during the three months ended December 31, 2005 was \$10.3 million compared to \$7.9 million provided by financing activities in the comparative period of 2004. During the three



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months ended December 31, 2005, the Company issued 212,490 Stapled Units on the exercise of Stapled Unit options for net proceeds of \$2.7 million, compared to the issuance of 334,590 Stapled Units on the exercise of Stapled Unit options for net proceeds of \$3.9 million in the comparative period in 2004. During the fourth quarter of 2005, \$13.0 million was applied to reduce amounts borrowed on available credit facilities, whereas \$4.0 million was borrowed on available credit facilities in the comparative period in 2004. Net cash provided by financing activities during the year ended December 31, 2005 was \$22.1 million compared to \$30.3 million used in financing activities in 2004. During the year ended December 31, 2005, the Company issued 580,554 Stapled Units for net proceeds of \$7.1 million on the exercise of Stapled Unit options, compared to the issuance of 660,895 Stapled Units for net proceeds of \$7.7 million on the exercise of Stapled Unit options in 2004. In addition, during 2005, \$15.0 million was borrowed on available credit facilities compared to \$38.0 million applied to reduce amounts borrowed on available credit facilities in 2004.

Net cash provided by investing activities during the three months ended December 31, 2005 was \$9.9 million compared to \$8.4 million for the comparative period of 2004. This result reflects a combination of both lower proceeds from the sale of property, plant and equipment and lower capital expenditures for the fourth quarter of 2005 relative to the same period in 2004. Net cash provided by investing activities during 2005 was \$20.9 million compared to \$24.5 million for 2004. This variance can be attributed to the net effect of transactions in the first quarter of 2005 related to the business transformation initiative, including capital additions of \$21.0 million for the buy-out of leases on company-operated logging equipment which was subsequently sold to the Company's new long-term contractors, with the Company receiving approximately \$25.1 million in proceeds from the sale of both leased and company-owned logging equipment and the sale of TFL 46 in 2004 for cash proceeds of \$16.2 million. Proceeds from the sale of property, plant and equipment for 2005 also includes \$3.7 million in proceeds received in connection with the timber reallocation agreement with the Province that was finalized in the first quarter of 2005.

As at December 31, 2005, TimberWest's total debt² outstanding was \$232.0 million compared to \$217.0 million as at December 31, 2004. The Company's consolidated debt-to-total capitalization ratio² as at December 31, 2005 was 20:80, compared to a ratio of 19:81 as at December 31, 2004. As at December 31, 2005, the Company also had commitments of \$15.9 million relating to outstanding letters of credit issued under its available credit facilities to secure various obligations of the Company. Total debt facilities available to the Company as at December 31, 2005 were \$386.3 million, comprised of \$10.0 million available under the demand operating credit facility, \$16.3 million available under the demand bank guarantee facility due June 30, 2006, \$65.0 million available under the revolving facility due July 7, 2010, \$100.0 million available under the revolving facility due July 28, 2010 and \$195.0 million of 7.0% debentures maturing on October 1, 2007.

² Total debt and the debt-to-total capitalization ratio are measures that do not have a standardized meaning prescribed by GAAP and may not be comparable to similar measures presented by other companies. As the Company's Series A Subordinate Notes (December 31, 2005 – \$695.7 million; December 31, 2004 – \$690.5 million) trade only as part of the Company's equity instrument, the Stapled Unit, they are not included in the Company's definition of debt. Management believes that the presentation of these measures will enhance an investor's understanding of the Company's financial resources and capital structure.

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Quarterly Financial Information

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

<i>(in millions of dollars, except per common share and per Stapled Unit amounts)</i>	2004				2005			
	Q1	Q2	Q3	Q4	Q1	Q2	Q3	Q4
Sales	\$ 105.4	\$ 136.8	\$ 119.9	\$ 114.9	\$ 98.6	\$ 107.6	\$ 119.2	\$ 132.8
Operating earnings	\$ 28.0	\$ 28.4	\$ 23.0	\$ 15.0	\$ 17.3	\$ 17.8	\$ 14.0	\$ 21.0
Net earnings (loss) before extraordinary item	\$ 3.8	\$ 8.5	\$ 3.6	\$ (1.2)	\$ (2.4)	\$ (6.7)	\$ (17.0)	\$ 30.9
Extraordinary item, net of applicable income taxes	\$ –	\$ –	\$ 9.0	\$ –	\$ –	\$ –	\$ –	\$ –
Net earnings (loss)	\$ 3.8	\$ 8.5	\$ 12.6	\$ (1.2)	\$ (2.4)	\$ (6.7)	\$ (17.0)	\$ 30.9
Earnings available for distribution	\$ 24.4	\$ 29.1	\$ 33.2	\$ 19.5	\$ 18.4	\$ 14.1	\$ 3.8	\$ 51.8
Earnings available for distribution before provision for future income taxes	\$ 23.6	\$ 29.0	\$ 33.0	\$ 13.2	\$ 19.6	\$ 13.0	\$ (6.9)	\$ 24.3
Distributable cash before extraordinary item	\$ 27.7	\$ 43.5	\$ 21.9	\$ 18.1	\$ 23.9	\$ 15.4	\$ (1.7)	\$ 29.7
Distributable cash from extraordinary item	\$ –	\$ –	\$ 14.0	\$ –	\$ –	\$ –	\$ –	\$ –
Distributable cash	\$ 27.7	\$ 43.5	\$ 35.9	\$ 18.1	\$ 23.9	\$ 15.4	\$ (1.7)	\$ 29.7
Distributions paid	\$ 20.5	\$ 20.6	\$ 20.6	\$ 20.6	\$ 20.7	\$ 20.8	\$ 20.8	\$ 20.8
<i>\$ per common share</i> ³								
Basic and diluted net earnings (loss) before extraordinary item	\$ 0.05	\$ 0.11	\$ 0.05	\$ (0.02)	\$ (0.03)	\$ (0.09)	\$ (0.22)	\$ 0.40
Extraordinary item	\$ –	\$ –	\$ 0.11	\$ –	\$ –	\$ –	\$ –	\$ –
Basic and diluted net earnings (loss) after extraordinary item	\$ 0.05	\$ 0.11	\$ 0.16	\$ (0.02)	\$ (0.03)	\$ (0.09)	\$ (0.22)	\$ 0.40
<i>\$ per Stapled Unit</i> ³								
Basic and diluted earnings available for distribution	\$ 0.32	\$ 0.38	\$ 0.43	\$ 0.25	\$ 0.24	\$ 0.18	\$ 0.05	\$ 0.67
Basic and diluted earnings available for distribution before provision for future income taxes	\$ 0.31	\$ 0.38	\$ 0.43	\$ 0.17	\$ 0.25	\$ 0.17	\$ (0.09)	\$ 0.31
Basic and diluted distributable cash before extraordinary item	\$ 0.36	\$ 0.57	\$ 0.29	\$ 0.24	\$ 0.31	\$ 0.20	\$ (0.02)	\$ 0.38
Basic and diluted distributable cash from extraordinary item	\$ –	\$ –	\$ 0.18	\$ –	\$ –	\$ –	\$ –	\$ –
Basic and diluted distributable cash	\$ 0.36	\$ 0.57	\$ 0.47	\$ 0.24	\$ 0.31	\$ 0.20	\$ (0.02)	\$ 0.38
Distributions paid	\$ 0.27	\$ 0.27	\$ 0.27	\$ 0.27	\$ 0.27	\$ 0.27	\$ 0.27	\$ 0.27

³ Per common share and per Stapled Unit amounts presented for each quarter have been determined based on the weighted average number of common shares or weighted average number of Stapled Units outstanding during the quarter. Per common share and per Stapled Unit amounts by quarter do not necessarily add to the total of the year due to changes in the weighted average number of common shares and Stapled Units outstanding during the year.

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Accounting Policy Change

Liabilities and equity:

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

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

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

Given that the number of shares required to retire the Subordinate Note component is not fixed, the Series A Subordinate Note component of the Stapled Unit is no longer classified as equity and is now presented as a liability on the Company's consolidated balance sheets. As at December 31, 2005, the Series A Subordinate Note component liability was \$695.7 million (December 31, 2004 – \$690.5 million).

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

For the three months ended December 31, 2005, interest on the Series A Subordinate Notes of \$20.9 million has been reported as an interest expense in the consolidated statements of operations, whereas for the same period in 2004 the interest amount of \$20.7 million and the income tax benefit thereon of \$7.3 million had previously been reported in retained earnings. For the year ended December 31, 2005, interest on the Series A Subordinate Notes of \$83.3 million has been reported as an interest expense in the consolidated statements of operations, whereas for the comparable period in 2004 the interest amount of \$82.5 million and the income tax benefit thereon of \$29.3 million had previously been reported in retained earnings.

Outlook

For 2006, TimberWest anticipates housing markets in both the US and Japan to run at levels consistent with those for 2005 through the first part of the year, with a modest reduction in the US housing market expected in the last half of the year but a stable Japanese housing market throughout the year. Other Asian log markets are expected to be stable in the year ahead.

In the US, 2006 has begun with strong demand for logs and strong prices for all of the Company's products. In addition to the robust housing market, there is also a seasonal shortage of logs as a result of weather-related harvesting curtailments in the US Pacific Northwest. The Company expects these conditions to continue, which will support strong demand and pricing levels in the near term. However, the Canadian dollar is expected to remain strong throughout the year and as a result TimberWest's net sales realizations from this market are expected to be comparable with the sales realizations achieved in the second half of 2005.

In the Japanese market, demand for logs is expected to be stable with the possibility of some improvement in pricing. Even with the weak Japanese Yen and the strong Canadian dollar, in the near term the Company expects that net sales realizations from this market will be slightly ahead of where they were in the back half of 2005.



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The Company is increasingly optimistic about its prospects in other Asian markets in the upcoming year and anticipates shipping more volume to these markets than it has in the past. Sales realizations in non-Japanese Asian markets are superior to those available in the domestic market.

TimberWest expects 2006 to be another weak year in the domestic log market with the lumber industry on the BC coast continuing to get smaller and restructure. While this is a necessary prelude to the revitalization process on the coast, the effect will be to keep log prices depressed for most end use sorts in 2006.

On the cost side, the Company expects 2006 costs to be comparable to those for 2005 in our timberland business. Production costs are typically lower during the first half of the year as harvesting is generally at lower elevations and consequently comprised of lower-cost harvest systems. Logging costs for the first half of 2006 are expected to be comparable to those of the first half of 2005.

Despite good export markets and a continued focus on cost containment, the strength of the Canadian dollar – which forecasters suggest will persist throughout 2006 – means that TimberWest is unlikely to generate its distributable cash requirements from timberland and sawmill operations.

However, real estate markets on Vancouver Island remain solid and as a result, the Company expects to generate sufficient cash flow from real estate sales to make up for the shortfall from timberland operations.

TimberWest expects to generate sufficient distributable cash to meet its distribution requirements for 2006 and to maintain its strong financial condition.

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



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Notice

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

TIMBERWEST FOREST CORP.

Consolidated Statements of Operations

(in millions of dollars)
Unaudited

	Three months ended December 31		Twelve months ended December 31	
	2005	2004	2005	2004
Sales	\$ 132.8	\$ 114.9	\$ 458.2	\$ 477.0
Operating costs and expenses:				
Cost of products sold	106.3	93.3	365.1	358.0
Depreciation, depletion and amortization	2.2	2.4	8.8	10.1
Selling, administrative and other	3.3	4.2	14.2	14.5
	111.8	99.9	388.1	382.6
Operating earnings	21.0	15.0	70.1	94.4
Interest expense:				
Series A Subordinate Notes owned by unitholders (note 2)	20.9	20.7	83.3	82.5
Long-term debt	4.0	3.8	14.8	14.3
Short-term debt	—	0.4	1.1	1.9
	24.9	24.9	99.2	98.7
Amortization of deferred financing costs	0.1	0.2	0.7	1.1
Other (income) expense, net	(3.3)	(2.7)	(8.0)	(8.2)
Termination of fibre supply agreement (note 4)	—	—	15.0	—
	21.7	22.4	106.9	91.6
Earnings (loss) before income taxes and extraordinary item	(0.7)	(7.4)	(36.8)	2.8
Income tax recovery (note 5)	(31.6)	(6.2)	(41.6)	(11.9)
Earnings (loss) before extraordinary item	30.9	(1.2)	4.8	14.7
Extraordinary item – expropriation settlement proceeds, net of applicable income taxes (note 6)	—	—	—	9.0
Net earnings (loss)	\$ 30.9	\$ (1.2)	\$ 4.8	\$ 23.7
Basic and diluted earnings (loss) per common share before extraordinary item (note 7)	\$ 0.40	\$ (0.02)	\$ 0.06	\$ 0.19
Extraordinary item, net of applicable income taxes	—	—	—	0.12
Basic and diluted net earnings (loss) per common share (note 7)	\$ 0.40	\$ (0.02)	\$ 0.06	\$ 0.31

Consolidated Statements of Retained Earnings

(in millions of dollars)
Unaudited

	Three months ended December 31		Twelve months ended December 31	
	2005	2004	2005	2004
Retained earnings, beginning of period	\$ 2.3	\$ 29.6	\$ 28.4	\$ 4.7
Net earnings (loss) for the period	30.9	(1.2)	4.8	23.7
Retained earnings, end of period	\$ 33.2	\$ 28.4	\$ 33.2	\$ 28.4

See accompanying notes to unaudited interim consolidated financial statements.

TIMBERWEST FOREST CORP.

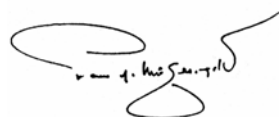
Consolidated Balance Sheets

(in millions of dollars)

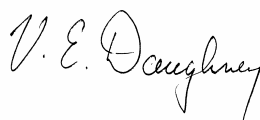
	As at December 31, 2005 <i>Unaudited</i>	As at December 31, 2004 (restated – note 2)
Assets		
Current assets:		
Cash and cash equivalents	\$ 3.0	\$ 1.6
Accounts receivable	23.9	14.7
Inventories	48.2	62.2
Prepaid expenses and other current assets	11.2	5.7
Future income taxes (note 5)	2.5	3.8
	88.8	88.0
Property, plant and equipment, net (note 8)	1,318.4	1,334.3
Other assets	11.9	12.2
	\$ 1,419.1	\$ 1,434.5
Liabilities and Unitholders' Equity		
Current liabilities:		
Revolving credit facilities (note 9)	\$ –	\$ 22.0
Accounts payable and accrued liabilities	30.1	35.5
Distribution payable	20.9	20.7
	51.0	78.2
Revolving credit facilities (note 9)	37.0	–
Debentures	195.0	195.0
Long-term silviculture liability	3.2	2.8
Non-pension post-retirement benefits	28.6	27.1
Future income taxes (note 5)	184.9	224.3
	499.7	527.4
Series A Subordinate Notes owned by unitholders (notes 2 and 10)	695.7	690.5
	1,195.4	1,217.9
Unitholders' equity:		
Share capital, consisting of common and preferred shares (note 10)	189.8	187.8
Contributed surplus	0.7	0.4
Retained earnings	33.2	28.4
	223.7	216.6
	\$ 1,419.1	\$ 1,434.5

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	
	2005	2004	2005	2004
Cash provided by (used in):				
Operating activities:				
Net earnings (loss)	\$ 30.9	\$ (1.2)	\$ 4.8	\$ 23.7
Items not involving cash:				
Depreciation, depletion and amortization	2.3	2.6	9.5	11.2
Gain on sale of property, plant and equipment	(6.8)	(6.5)	(13.0)	(12.4)
Future income tax recovery (note 6)	(27.5)	(6.3)	(38.1)	(7.4)
Other non-cash items	0.5	3.1	2.3	2.3
	(0.6)	(8.3)	(34.5)	17.4
Changes in non-cash working capital:				
Accounts receivable	(2.7)	9.0	(9.2)	(0.3)
Inventories	21.7	(6.0)	14.0	(16.5)
Prepaid expenses and other	1.2	(1.7)	(6.7)	0.4
Accounts payable and accrued liabilities	(16.3)	(15.2)	(5.4)	6.2
Distribution payable	0.1	0.1	0.2	0.2
	3.4	(22.1)	(41.6)	7.4
Financing activities:				
Issuance of Stapled Units on exercise of options:				
Series A Subordinate Notes	1.8	2.9	5.2	5.9
Share capital	0.9	1.0	1.9	1.8
	2.7	3.9	7.1	7.7
Demand credit facility	(0.5)	–	–	–
Revolving credit facilities	(12.5)	4.0	15.0	(38.0)
	(10.3)	7.9	22.1	(30.3)
Investing activities:				
Proceeds from sale of property, plant and equipment (note 3)	9.8	12.0	42.8	33.3
Additions to property, plant and equipment (note 3)	(0.1)	(4.0)	(22.6)	(8.5)
Other assets	0.2	0.4	0.7	(0.3)
	9.9	8.4	20.9	24.5
Increase (decrease) in cash	3.0	(5.8)	1.4	1.6
Cash and cash equivalents, beginning of period	–	7.4	1.6	–
Cash and cash equivalents, end of period	\$ 3.0	\$ 1.6	\$ 3.0	\$ 1.6
Supplemental information:				
Interest on Series A Subordinate Notes paid to unitholders	\$ 20.8	\$ 20.6	\$ 83.1	\$ 82.3
Other interest paid	\$ 7.4	\$ 7.4	\$ 16.0	\$ 16.0
Income taxes paid	\$ 0.1	\$ 0.2	\$ 0.6	\$ 0.8

See accompanying notes to unaudited interim consolidated financial statements.



TIMBERWEST FOREST CORP.

Notes to Unaudited Interim Consolidated Financial Statements For the three and twelve months ended December 31, 2005 and 2004

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

1. Significant Accounting Policies

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

2. Change in Accounting Policy

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

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

Given that the number of shares required to retire the Subordinate Note component is not fixed, the Series A Subordinate Note component of the Stapled Unit is no longer classified as equity and is now presented as a liability on the Company's consolidated balance sheets. As at December 31, 2005, the Series A Subordinate Note component liability was \$695.7 million (December 31, 2004 – \$690.5 million).

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

For the three months ended December 31, 2005, interest on the Series A Subordinate Notes of \$20.9 million has been reported as an interest expense in the consolidated statements of operations, whereas for the same period in 2004 the interest amount of \$20.7 million and the income tax benefit thereon of \$7.3 million had previously been reported in retained earnings. For the year ended December 31, 2005, interest on the Series A Subordinate Notes of \$83.3 million has been reported as an interest expense in the consolidated statements of operations, whereas for the same period in 2004 the interest amount of \$82.5 million and the income tax benefit thereon of \$29.3 million had previously been reported in retained earnings.

TIMBERWEST FOREST CORP.

Notes to Unaudited Interim Consolidated Financial Statements

For the three and twelve months ended December 31, 2005 and 2004

3. Business Transformation

The Company completed the final phase of its business transformation initiative early in 2005, with the buy-out of leases on Company operated logging equipment for \$21.0 million, and the subsequent sale of this leased equipment and other company-owned logging equipment to long-term contractors for proceeds of approximately \$25.1 million. Other income for the year ended December 31, 2005 includes a gain on disposal of the logging equipment of approximately \$4.0 million.

During the second quarter of 2005, the Company realigned the roles and responsibilities of personnel under the new business model and eliminated additional salaried positions in the timberland and corporate overhead components of its business. Operating earnings for the year ended December 31, 2005, reflect an expense of \$2.0 million in cost of sales relating to this restructuring.

During the second quarter of 2004, the Company completed the sale of its southern Vancouver Island public land operations, referred to as TFL 46. The sale price for these assets was \$17.9 million. Other income for the year ended December 31, 2004, includes the gain on the sale of these operations.

4. Termination of Fibre Supply Agreement

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

5. Income Taxes

	Three months ended December 31		Twelve months ended December 31	
	2005	2004	2005	2004
Current income tax expense (recovery)				
Large corporation tax	\$ -	\$ 0.1	\$ 0.6	\$ 0.5
Federal income tax recovery	(4.1)	-	(4.1)	-
	(4.1)		(3.5)	0.5
Future income tax recovery	(27.5)	(6.3)	(38.1)	(12.4)
	\$ (31.6)	\$ (6.2)	\$ (41.6)	\$ (11.9)

The provision for current income taxes for the three and twelve months ended December 31, 2005 includes a \$4.1 million recovery related to the settlement of an appeal of a prior year income tax assessment relating to one of the Company's subsidiary companies.

In the fourth quarter of 2005, the Company implemented a number of tax planning strategies with respect to the availability of non-capital losses. As a result of these activities, the Company recorded a \$16.1 million future income tax recovery in the three and twelve months ended December 31, 2005.

During 2005, a 1.5% reduction in the British Columbia general corporate income tax rate effective July 1, 2005 was enacted, resulting in a reduction in the combined federal and provincial statutory corporate income tax rate from 35.6% to 34.1%. This rate change resulted in a future income tax recovery for the year ended December 31, 2005 of \$9.3 million.

The provision for future income taxes for the year ended December 31, 2004 includes a \$5.0 million recovery to recognize the benefit of losses utilized to offset the income tax expense that would otherwise be applicable to expropriation settlement proceeds of \$14.0 million received during the year (see note 6).

TIMBERWEST FOREST CORP.

Notes to Unaudited Interim Consolidated Financial Statements

For the three and twelve months ended December 31, 2005 and 2004

6. Extraordinary Item – Expropriation Settlement Proceeds

In the third quarter of 2004, the Company received \$14.0 million from the Province of British Columbia as settlement for the 1995 expropriation of timber harvesting rights in the Walbran Valley and Hitchie Creek areas for park creation purposes under the *Park Amendment Act, 1995* (British Columbia). The \$14.0 million proceeds from this settlement were recorded as an extraordinary item in the consolidated statements of earnings, net of \$5.0 million in income taxes affected at statutory tax rates. As the Company had non-capital losses carried forward from previous taxation years, income taxes were not paid on the proceeds from this settlement. The future income tax expense on earnings before the extraordinary item for the year ended December 31, 2004, was reduced by \$5.0 million to recognize the benefit of the losses utilized and fully offset the tax expense charged to the extraordinary item.

7. Earnings per Share

	Three months ended December 31		Twelve months ended December 31	
	2005	2004	2005	2004
Earnings (loss) before extraordinary item	\$ 30.9	\$ (1.2)	\$ 4.8	\$ 14.7
Extraordinary item, net of income taxes	–	–	–	9.0
Net earnings (loss)	\$ 30.9	\$ (1.2)	\$ 4.8	\$ 23.7
Basic weighted average number of common shares	77,398,008	76,809,113	77,207,309	76,523,531
Incremental common shares from potential exercise of options	98,492	181,446	108,130	105,755
Diluted weighted average number of common shares	77,496,500	76,990,559	77,315,439	76,629,286
Basic and diluted net earnings (loss) before extraordinary item per common share	\$ 0.40	\$ (0.02)	\$ 0.06	\$ 0.19
Extraordinary item, net of income taxes	–	–	–	0.12
Basic and diluted net earnings (loss) per common share	\$ 0.40	\$ (0.02)	\$ 0.06	\$ 0.31

8. Property, Plant and Equipment

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

9. Credit Facilities

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

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

TIMBERWEST FOREST CORP.

Notes to Unaudited Interim Consolidated Financial Statements

For the three and twelve months ended December 31, 2005 and 2004

9. Credit Facilities (continued)

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

On July 28, 2005, the Company entered into an additional long-term financing facility in the amount of \$100.0 million pursuant to an unsecured revolving facility underwritten by a syndicate of Canadian Chartered banks, due on July 27, 2010. Under this facility, funds are available to the Company in both Canadian and US dollars by way of adjusted prime rate-based loans, US base rate-based loans, bankers' acceptances, LIBOR loans and letters of credit or guarantee. On completion of this facility, both the Company's short-term unsecured committed revolving credit facility for \$40.0 million due on September 1, 2005 and long-term unsecured revolving credit facility for \$125.0 million due on December 31, 2006, were cancelled.

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

As at December 31, 2005, the Company had combined borrowings of \$37.0 million on available credit facilities, including borrowing of \$7.0 million on its \$65.0 million long-term unsecured revolving facility and borrowing of \$30.0 million on its \$100.0 million long-term unsecured revolving facility. In addition, the Company had commitments of \$15.9 million relating to outstanding letters of credit issued under its \$16.3 million demand bank guarantee facility.

10. Stapled Units

	Stapled Unit Components			Total
	Number	Series A Subordinate Notes	Share Capital (consisting of common and preferred shares)	
Twelve months ended December 31, 2004:				
Balance, December 31, 2003	76,246,122	\$ 684.6	\$ 186.0	\$ 870.6
Issuance of Stapled Units on exercise of options	660,895	5.9	1.8	7.7
Balance, December 31, 2004	76,907,017	\$ 690.5	\$ 187.8	\$ 878.3
Twelve months ended December 31, 2005:				
Balance, December 31, 2004	76,907,017	\$ 690.5	\$ 187.8	\$ 878.3
Issuance of Stapled Units on exercise of options	580,554	5.2	2.0	7.2
Balance, December 31, 2005	77,487,571	\$ 695.7	\$ 189.8	\$ 885.5

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

TIMBERWEST FOREST CORP.

Notes to Unaudited Interim Consolidated Financial Statements

For the three and twelve months ended December 31, 2005 and 2004

10. Stapled Units (continued)

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

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

11. Employee Benefits

The Company, through its subsidiaries, maintains pension plans that include defined benefit and defined contribution segments available to all salaried employees and to hourly employees not covered by union pension plans. During the three months ended December 31, 2005, the Company recorded an expense of \$0.9 million for pension benefit costs (2004 – \$0.9 million) and made cash payments of \$0.7 million to fund current and future service costs (2004 – \$1.5 million). For the year ended December 31, 2005, the Company recorded an expense of \$2.5 million for pension benefit costs (2004 – \$3.2 million) and made cash payments of \$3.3 million to fund current and future service costs (2004 – \$2.8 million).

The Company also provides non-pension benefits consisting of group life insurance and medical benefits to eligible retired employees, which the Company funds on an as-incurred basis. During the three months ended December 31, 2005, the Company recorded an expense of \$0.9 million for non-pension benefit costs (2004 – \$0.8 million) and made cash payments of \$0.5 million to fund current and future benefit costs (2004 – \$0.5 million). For the year ended December 31, 2005, the Company recorded an expense of \$3.6 million for non-pension benefit costs (2004 – \$3.5 million) and made cash payments of \$1.9 million to fund current and future benefit costs (2004 – \$1.8 million).

12. Stock-based Compensation Plans

Under the Company's Stapled Unit Option Plan, the Company may grant options for the purchase of Stapled Units to directors, officers or employees who are in active service or employment of the Company or of any of its subsidiaries. During the three months ended December 31, 2005, no Stapled Unit options were granted (2004 – nil). For the year ended December 31, 2005, 348,998 Stapled Unit options were granted at an average exercise price of \$15.79 (2004 – 313,220 Stapled Unit options were granted at an average exercise price of \$12.21).

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

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

TIMBERWEST FOREST CORP.

Notes to Unaudited Interim Consolidated Financial Statements

For the three and twelve months ended December 31, 2005 and 2004

12. Stock-based Compensation Plans (continued)

The compensation cost for the 348,998 Stapled Unit options granted between January 1, 2005 and December 31, 2005 is \$454,900 (2004 – 313,220 Stapled Unit options were granted with a compensation cost of \$269,000). The compensation cost of Stapled Unit option awards is amortized against earnings over the three-year vesting period of the underlying options. An expense of \$74,000 and \$354,000 has been recognized in net earnings for the three and twelve month periods ended December 31, 2005, respectively, (2004 – \$45,000 and \$179,000, respectively,) for option awards made during fiscal 2005, 2004 and 2003, with a corresponding credit to contributed surplus.

Had the Company used the fair value method to account for Stapled Unit options granted during 2002, there would have been no adjustment to net earnings and earnings per common share reported for the three and twelve month periods ended December 31, 2005 and 2004, as the stock-based compensation cost related to these options was nominal.

Under the Company's Distribution Equivalent Plan, the Company awards certain Stapled Unit option holders an amount equal to actual distributions paid on the Company's Stapled Units. Awards granted under the Distribution Equivalent Plan vest under the same terms that apply to the corresponding options and can only be exercised at the time of exercise of the corresponding options. The Company applies the principles of the fair value-based method of accounting for stock-based compensation to awards granted under this plan. Awards are accrued on a basis equal to actual distributions paid on the Company's issued and outstanding Stapled Units and are charged to earnings as the underlying Stapled Unit options vest. During the three months ended December 31, 2005, \$0.3 million has been accrued for awards granted under this plan (2004 – \$0.3 million) and \$0.3 million has been amortized against earnings for the quarter (2004 – \$0.3 million). For the year ended December 31, 2005, \$1.1 million has been accrued for awards granted under this plan (2004 – \$1.3 million) and \$1.1 million has been amortized against earnings for this period (2004 – \$1.3 million).

During the three months ended December 31, 2005, a total of 212,490 Stapled Unit options with an average exercise price of \$12.75 were exercised (2004 – 334,590 Stapled Unit options with an average exercise price of \$11.65 were exercised, 87 Stapled Unit options with an average exercise price of \$11.90 were cancelled and 3,220 Stapled Unit options with an average exercise price of \$11.90 expired). During the year ended December 31, 2005, a total of 580,554 Stapled Unit options with an average exercise price of \$12.17 were exercised and 70,543 Stapled Unit options with an average exercise price of \$14.33 were cancelled (2004 – 660,895 Stapled Unit options with an average exercise price of \$11.64 were exercised and 10,260 Stapled Unit options with an average exercise price of \$12.08 were cancelled, and 3,220 Stapled Unit options with an average exercise price of \$11.90 expired).

13. Comparative Figures

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

TIMBERWEST FOREST CORP.

Supplemental Information

Unaudited

Three months ended
December 31

Twelve months ended
December 31

2005

2004

2005

2004

Sales by Product

(in millions of dollars)

Log sales

Domestic	\$ 35.0	\$ 38.1	\$ 141.4	\$ 181.6
Export – Asia	31.1	26.8	115.0	109.3
Export – US	22.7	8.9	71.5	46.7

Total log sales	88.8	73.8	327.9	337.6
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Lumber	28.1	28.5	92.2	106.2
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Wood chips and other	5.7	5.2	23.0	22.4
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Real estate	10.2	7.4	15.1	10.8
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	\$ 132.8	\$ 114.9	\$ 458.2	\$ 477.0
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Sales Volume

Logs (thousand m³)

Domestic	504.5	432.9	1,965.8	2,099.9
Export – Asia	234.8	180.4	853.3	694.4
Export – US	250.8	97.1	795.7	457.8

	990.1	710.4	3,614.8	3,252.1
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Lumber (million fbm)	47.9	54.0	166.9	171.7
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Log Sales Mix (thousand m³)

Fir	511.4	458.4	2,002.4	1,905.2
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Hemba	325.9	127.2	1,013.5	730.1
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Cedar	95.3	66.2	359.9	322.4
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Other	57.6	58.6	239.0	294.4
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	990.2	710.4	3,614.8	3,252.1
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Production Volume

Logs (thousand m³)

Public tenures	175.1	120.9	761.0	864.3
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Private timberlands	617.2	587.7	2,871.7	2,541.3
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	792.3	708.6	3,632.7	3,405.6
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Lumber (million fbm)	44.1	49.1	167.6	180.7
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Earnings Before Interest, Taxes, Depreciation and Amortization (EBITDA)*

(in millions of dollars)

Net earnings (loss)	\$ 30.9	\$ (1.2)	\$ 4.8	\$ 23.7
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Add (deduct):

Interest on Series A Subordinate Notes paid to unitholders	20.9	20.7	83.3	82.5
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Interest on long-term debt	4.0	3.8	14.8	14.3
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Interest on short-term debt	–	0.4	1.1	1.9
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Income tax recovery	(31.6)	(6.2)	(41.6)	(11.9)
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Depreciation, depletion and amortization	2.2	2.4	8.8	10.1
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Amortization of deferred financing costs	0.1	0.2	0.7	1.1
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Extraordinary item, net of income taxes	–	–	–	(9.0)
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EBITDA	\$ 26.5	\$ 20.1	\$ 71.9	\$ 112.7
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* EBITDA does not have a standardized meaning prescribed by Canadian generally accepted accounting principles and may not be comparable to similar measures presented by other companies. Management believes that the presentation of this measure will enhance an investor's understanding of the Company's operating performance.

TIMBERWEST FOREST CORP.

About TimberWest

TimberWest Forest Corp. is uniquely positioned as the largest owner of private forest lands in western Canada. The Company's 334,000 hectares, providing a sustainable annual harvest of 2.5 million m³ of logs, are located on Vancouver Island and predominantly support the growth of Douglas fir forests, a premium species used for structural purposes. TimberWest runs fully-contracted harvesting operations. With approximately 70% of the Company's logging now being done in second-growth stands, TimberWest leads the industry in the harvest of second-growth timber. Third party auditors have certified that the management of the Company's private forest land conforms to the objectives and performance measures of the American Forest and Paper Association's Sustainable Forestry Initiative (SFI[®]). TimberWest also owns renewable Crown harvest rights to 0.7 million m³ of logs per year and operates a lumbermill located near Campbell River, BC. In addition, approximately 6,200 hectares of the Company's private forest lands have been identified as having greater value as real estate properties and are progressively being made available for higher uses.

TimberWest Forest Corp.

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

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

