



For immediate release: August 3, 2006

TIMBERWEST ANNOUNCES 2006 SECOND QUARTER RESULTS

Company generates distributable cash of \$35.5 million, or \$0.46 per Stapled Unit, on increased real estate activity and strong log and lumber sales, reflecting a higher-value sales mix and improved pricing

Vancouver (BC) – The second quarter of 2006 was another strong quarter for TimberWest. The Company generated distributable cash of \$35.5 million or \$0.46 per Stapled Unit. On a year to date basis, the Company has generated approximately 80% of its annual distributable cash requirements, having generated distributable cash of \$67.0 million or \$0.86 per unit. This is considerably better than the Company's 2005 performance when it generated \$15.4 million of distributable cash during the second quarter and \$39.3 million for the first half of that year.

“Our strong financial position for the first half of the year is attributable to higher production and sales volumes, a higher-value sales mix with a higher percentage of fir, improved pricing, and solid real estate sales,” said President and CEO Paul McElligott. “Of note is that our strong financial performance in the first half of 2006 resulted in the Company closing the second quarter with its lowest net debt level ever at \$184.8 million.”

Log sales volumes for the quarter were up 11% over the comparative period in 2005. While volumes sold into the domestic market were down slightly, export log sales volumes in the second quarter were up about 25% over the comparative period in 2005, and on a year to date basis were up 30%. As noted in our previous results releases, much of the increased export volume in the current year can be attributed to fibre freed up as the result of the repurchase of a fibre supply agreement in late 2005.

Heavy snow pack at higher elevations resulted in harvesting taking place predominantly at lower elevations during the second quarter. As a result, the harvest mix and resulting sales mix remained weighted to Douglas fir, which is a higher-value species.

Despite a much stronger Canadian dollar, external sales realizations were strong at \$100 per m³ this quarter compared to the second quarter of 2005 when they were \$95 per m³. The higher component of fir in the sales mix and an increase in Japanese exports were the key drivers behind this increase. In addition, prices held up reasonably well in all of our markets, with cedar price improvements the most noticeable.

“TimberWest is continuing with its enhanced real estate program,” added McElligott. “Proceeds from the sale of real estate were \$11.4 million for the quarter, with the sale of the former Youbou sawmill site accounting for the majority of these proceeds. This is significantly higher than the second quarter of 2005 when real estate sales proceeds were \$0.3 million.”

As disclosed in the Company's first quarter unitholder materials, real estate values on Vancouver Island have climbed in recent years and this triggered an updated strategic review of TimberWest's entire land portfolio. At the end of the first quarter of 2006, the Company announced that, based on this review, over an initial five-year planning horizon, approximately 10,000 hectares of higher and better use (HBU) properties had been identified with an estimated current market value of between \$150 million and \$200 million. During the second quarter, the Company completed the work with its real estate consultants in ascertaining what the portfolio of HBU properties was for the 6- to 15-year time horizon. TimberWest is pleased to report that an additional 28,000 hectares of HBU lands have been identified, making for a total potential portfolio of 38,000 hectares of HBU properties available over the next 15 years. “As is, where is”, our external consultants have estimated the current market value of the Company's entire HBU portfolio, excluding timber, to be in the range of \$300 million to \$450 million, with the potential to increase this value over time through value-added development activities on selected properties. Even “as is, where is”, this represents a premium to the carrying cost of these lands. We are continuing to evaluate the best way to realize these values for unitholders.

The sales process for the Elk Falls Lumbermill, the Company's only remaining sawmill, is still underway with potential investors conducting due diligence on this asset. TimberWest is hopeful a successful sale can be announced later this year but there is no certainty this will materialize given the stronger Canadian dollar, the

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lumbermill's financial performance, and the softwood lumber agreement recently negotiated with the US, which in its present form severely disadvantages the coastal BC industry. Labour negotiations for a new collective agreement at the lumbermill have been suspended until the outcome of the sales process is known.

In the on-going effort to maintain a high standard of safety performance on the Company's land base, TimberWest's goal is to carry out safety program audits on all production-related contractors and approximately half of its forestry and silviculture contractors during 2006. During the second quarter the Company carried out 20 external contractor safety program audits. In addition, work procedure safety reviews were completed for the employees of three of our helilogging harvest contractors, and an audit of our Martin Mars water bombers was completed by an independent aviation consultant.

With respect to our ISO 14001 and SFI[®] certification, annual surveillance audits including document and field reviews of all forest lands and facilities were performed in the second quarter. KPMG Performance Registrar Inc. completed the 2006 ISO 14001 and SFI[®] certification audits in May 2006.

As TimberWest enters the second half of the year, the Company expect results for the next six months to be below those of the first half of the year as our sales volumes will be lower, North American markets are anticipated to weaken and, seasonally, hemlock will become a larger proportion of the harvest mix. Housing activity in the US has begun to dampen and lumber prices are falling. In addition, hemlock is a less profitable species than Douglas fir as it has more limited and lower-value end uses – this species continues to be a challenge for us, as it is for all of our peers on the coast. As well, the third quarter of 2006 has already begun with very hot weather on the coast and we have taken more downtime than usual so far this quarter.

Despite the fact that the second half of the year is expected to be weaker than the first half, we are confident that TimberWest will generate enough distributable cash from its timberland and real estate operations to cover its distribution requirements for 2006.

Quarterly Financial Highlights

TimberWest generated distributable cash¹ of \$35.5 million or basic and diluted distributable cash of \$0.46 per weighted average Stapled Unit for the three months ended June 30, 2006, compared to distributable cash of \$15.4 million or basic and diluted distributable cash of \$0.20 per weighted average Stapled Unit for the same period in 2005. The increase in distributable cash from the prior year period can be primarily attributed to stronger operating results for the second quarter of 2006, reflecting both an increase in log and lumber sales volumes and higher average realizations on log and lumber sales due to a richer sales mix and improved pricing. In addition, there was increased real estate activity in the second quarter of 2006, generating proceeds of \$11.4 million compared to proceeds of \$0.3 million for the prior year period. Earnings available for distribution¹ for the three months ended June 30, 2006, before provision for future income taxes, were \$11.5 million or \$0.15 per basic and diluted weighted average Stapled Unit compared to \$13.0 million or \$0.17 per basic and diluted weighted average Stapled Unit for the comparative period in 2005.

Sales for the three months ended June 30, 2006, were \$145.6 million compared to sales of \$107.6 million reported for the comparative period in 2005. Operating earnings were \$32.6 million or 22% of sales for the second quarter of 2006 compared to \$17.8 million or 17% of sales for the same period in 2005. The year-over-year strengthening of the operating margin primarily reflects higher average realizations on log and lumber sales, which were up 5% and 21%, respectively, and an increase in log and lumber sales volumes, up 11% and 24%, respectively, compared to the same period in 2005. The Company recorded a \$17.2 million non-cash pension expense in the second quarter of 2006 related to the annuitization and transfer of certain pension plan obligations to a financial institution during the quarter (see Highlights and Significant Transactions – *Pension Plan Annuitization*). Earnings before interest, taxes, depreciation and amortization (EBITDA¹) for the three months ended June 30, 2006, were \$17.5 million or \$0.23 per basic and diluted weighted average Stapled Unit compared to \$19.7 million or \$0.26 per basic and diluted weighted average Stapled Unit for the comparative period in 2005. The Company reported an income tax recovery of \$21.5 million for the three months ended June 30, 2006, including a non-cash future income tax recovery of \$21.6 million comprised primarily of a \$14.8

¹ Distributable cash, earnings available for distribution and EBITDA are measures that do not have a standardized meaning prescribed by Canadian generally accepted accounting principles (GAAP) and may not be comparable to similar measures presented by other companies. Management believes that the presentation of these measures will enhance an investor's understanding of the Company's operating performance. A reconciliation of net earnings (loss) as determined in accordance with GAAP and distributable cash and earnings available for distribution is provided in the Summary of Financial Results and a reconciliation of net earnings as determined in accordance with GAAP and EBITDA is provided in the Supplemental Information included in this press release.

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million recovery to reflect the effect of changes in Canadian federal income tax rates that were substantively enacted during the quarter, and a \$5.8 million recovery arising from the pension plan annuitization transaction completed in the second quarter of 2006. Net earnings for the three months ended June 30, 2006, were \$12.2 million, equating to basic and diluted net earnings of \$0.16 per weighted average common share, compared to a net loss of \$6.7 million or a basic and diluted net loss of \$0.09 per weighted average common share for the comparative period in 2005.

Year to Date Financial Highlights

TimberWest generated distributable cash of \$67.0 million or basic and diluted distributable cash of \$0.86 per weighted average Stapled Unit for the six months ended June 30, 2006, compared to distributable cash of \$39.3 million or basic and diluted distributable cash of \$0.51 per weighted average Stapled Unit for the same period in 2005. Distributable cash benefited from strong operating results for the first half of 2006, including increased log and lumber production and sales volumes as well as higher average realizations on log and lumber sales due to a richer sales mix and improved pricing. Distributable cash also benefited from increased real estate activity in the first six months of 2006, generating real estate sales proceeds of \$16.9 million compared to proceeds of \$2.0 million for the prior year period. Distributable cash results for the first six months of 2005 reflect atypical property, plant and equipment transactions, including the buy-out of leases on company-operated logging equipment for \$17.0 million and the subsequent sale of this leased equipment and other company-owned logging equipment to long-term contractors for proceeds of approximately \$21.4 million as part of the 2005 business transformation initiative. Earnings available for distribution for the six months ended June 30, 2006, before provision for future income taxes, were \$32.7 million or \$0.42 per basic and diluted weighted average Stapled Unit compared to \$32.6 million or \$0.42 per basic and diluted weighted average Stapled Unit for the comparative period in 2005.

Sales for the six months ended June 30, 2006 were \$271.9 million compared to sales of \$206.2 million reported for the comparative period in 2005. Operating earnings were \$57.9 million or 21% of sales for the first half of 2006 compared to \$35.1 million or 17% of sales for the same period in 2005. The year over year strengthening of the operating margin primarily reflects higher average realizations on log and lumber sales, which were up 5% and 16%, respectively, and an increase in log and lumber sales volumes, up 12% and 29%, respectively, compared to the same period in 2005. As noted in the quarterly financial highlights, June 30, 2006, year to date results reflect a \$17.2 million non-cash pension expense related to the annuitization and transfer of certain pension plan obligations completed during the second quarter of 2006. EBITDA for the six months ended June 30, 2006, were \$45.0 million or \$0.58 per basic and diluted weighted average Stapled Unit compared to \$45.2 million or \$0.59 per basic and diluted weighted average Stapled Unit for the comparative period in 2005. The Company reported an income tax recovery of \$24.0 million for the six months ended June 30, 2006, including a non-cash future income tax recovery of \$24.2 million comprised primarily of a \$14.8 million recovery to reflect the effect of changes in Canadian federal income tax rates that were substantively enacted during the second quarter of 2006, and a \$5.8 million recovery arising from the pension plan annuitization transaction completed in the second quarter of 2006. Net earnings for the six months ended June 30, 2006, were \$15.1 million, equating to basic and diluted net earnings of \$0.19 per weighted average common share, compared to a net loss of \$9.1 million or a basic and diluted net loss of \$0.12 per weighted average common share for the comparative period in 2005.

Highlights and Significant Transactions

Pension Plan Annuitization

During the second quarter of 2006, the Company entered into an agreement with a financial institution to purchase annuities for all retirees in the Company's salaried employee defined benefit pension plans. Effective April 15, 2006, \$89.7 million of pension obligations were transferred to the financial institution at a cost to the Company of \$1.1 million. In addition, the Company recorded a \$17.2 million non-cash pension expense in the second quarter of 2006 related to this transaction, representing the unamortized net actuarial loss associated with retiree pension obligations at the transaction date that would have otherwise been amortized over the expected life of the pension plan.

Subsequent to June 30, 2006, the Company entered into an agreement with a financial institution to purchase annuities for members of one of the Company's remaining small defined benefit pension plans. Effective July 14, 2006, \$1.0 million of pension obligations and \$1.4 million of pension assets were transferred to the financial institution. As this pension plan was in a surplus position at the time of the transaction, there was no cost to the Company and no pension expense has been recorded in relation to this transaction.

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TimberWest believes these transactions provide security for retirees, while eliminating an encumbrance from its business at a minimal cost.

Cash Distribution

TimberWest is pleased to announce a distribution of \$0.269 per Stapled Unit, payable October 15, 2006, to unitholders of record on October 1, 2006. From inception to June 30, 2006, the Company has generated distributable cash of \$731.1 million while, including the July 15, 2006 distribution of \$20.9 million, the Company has paid out \$691.9 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.

Summary of Financial Position

<i>(In millions of dollars, except as otherwise indicated)</i> <i>Unaudited</i>	As at June 30, 2006	As at December 31, 2005
Net non-cash working capital (excluding cash, short-term borrowings and distribution payable)	\$ 37.5	\$ 55.7
Cash	\$ 10.2	\$ 3.0
Total assets	\$ 1,396.4	\$ 1,419.1
Total debt ²	\$ 195.0	\$ 232.0
Series A Subordinate Notes owned by unitholders	\$ 696.1	\$ 695.7
Unitholders' equity	\$ 239.0	\$ 223.7
Total capitalization ²	\$ 1,130.1	\$ 1,151.4
Debt-to-total capitalization ratio ²	17.3%	20.1%
Stapled Units outstanding	77,529,663	77,487,571
Basic weighted average Stapled Units outstanding	77,506,046	77,207,309
Diluted weighted average Stapled Units outstanding	77,581,898	77,315,439

² Total debt, total capitalization and debt-to-total capitalization 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 financial resources and capital structure.

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Summary of Financial Results

<i>In millions of dollars, except as otherwise indicated Unaudited</i>	Three Months Ended		Six Months Ended	
	June 30, 2006	June 30, 2005	June 30, 2006	June 30, 2005
Sales	\$ 145.6	\$ 107.6	\$ 271.9	\$ 206.2
Operating earnings	\$ 32.6	\$ 17.8	\$ 57.9	\$ 35.1
Net earnings (loss)	\$ 12.2	\$ (6.7)	\$ 15.1	\$ (9.1)
Distributable cash:				
Net earnings (loss)	\$ 12.2	\$ (6.7)	\$ 15.1	\$ (9.1)
Interest on Series A Subordinate Notes owned by unitholders	20.9	20.8	41.8	41.6
Earnings available for distribution	33.1	14.1	56.9	32.5
Future income tax expense (recovery)	(21.6)	(1.1)	(24.2)	0.1
Earnings available for distribution before provision for future income taxes	11.5	13.0	32.7	32.6
Add (deduct):				
Depreciation, depletion and amortization	2.3	2.6	4.7	4.7
Proceeds from the sale of real estate	11.4	0.3	16.9	2.0
Proceeds from sale of other property, plant and equipment	–	3.5	–	28.6
Loss (gain) on sale of property, plant and equipment	(6.1)	0.5	(2.7)	(6.3)
Additions to property, plant and equipment	(1.1)	(4.5)	(1.5)	(22.3)
Other non-cash items	17.5	–	16.9	–
	24.0	2.4	34.3	6.7
Distributable cash	\$ 35.5	\$ 15.4	\$ 67.0	\$ 39.3
Reconciliation of cash flow from operations before changes in working capital to distributable cash:				
Cash flow from operations before changes in working capital	\$ 2.8	\$ (4.5)	\$ 9.5	\$ (10.0)
Add (deduct):				
Interest on Series A Subordinate Notes owned by unitholders	20.9	20.8	41.8	41.6
Proceeds from the sale of real estate	11.4	0.3	16.9	2.0
Proceeds from sale of other property, plant and equipment	–	3.5	–	28.6
Additions to property, plant and equipment	(1.1)	(4.5)	(1.5)	(22.3)
Other non-cash items	1.5	(0.2)	0.3	(0.6)
Distributable cash	\$ 35.5	\$ 15.4	\$ 67.0	\$ 39.3
Distributions paid	\$ 20.9	\$ 20.8	\$ 41.8	\$ 41.5
Per weighted average Stapled Unit amounts: <i>(Dollars per Stapled Unit)</i>				
<i>Basic and diluted earnings available for distribution before provision for future income taxes</i>	\$ 0.15	\$ 0.17	\$ 0.42	\$ 0.42
<i>Basic and diluted distributable cash</i>	\$ 0.46	\$ 0.20	\$ 0.86	\$ 0.51
<i>Distributions paid</i>	\$ 0.27	\$ 0.27	\$ 0.54	\$ 0.54
Per weighted average common share amounts: <i>(Dollars per common share)</i>				
<i>Basic and diluted net earnings (loss)</i>	\$ 0.16	\$ (0.09)	\$ 0.19	\$ (0.12)

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Outlook

As we look forward to the second half of the year, we expect our results to be below those of the first half of the year as sales volumes will be lower, fire season will affect timing of production, North American markets are expected to weaken and hemlock is expected to become a larger proportion of our harvest mix. Hemlock is a lower value species and the weak coastal forest industry which consumes the bulk of our hemlock, coupled with a strong Canadian dollar, make the profitability of this species marginal.

Housing starts in the US are beginning to decline and expectations are for this to persist through the balance of the year. As a result, North American lumber prices have trended downward – a condition that economic forecasts suggest will continue through the balance of the year. We expect log prices will follow this trend, although log prices typically lag lumber prices.

In Japan, log and lumber markets are strong and we expect this to continue for the balance of the year.

Real estate sales will continue at higher than historic levels for the rest of the year.

Notwithstanding the strong Canadian dollar and a seasonally weaker end-use sort mix, we are confident that the Company will generate enough distributable cash from its timberland and real estate operations to cover its distribution requirements for 2006.

Quarterly Conference Call

TimberWest will hold a conference call at 8:00am PDT (11:00pm EDT) on Friday, August 4, 2006, to discuss results of the second quarter. To access the conference call, listeners should dial 1-800-377-5794. For those unable to participate in the live call, a recording of the call will be available until August 18, 2006, and can be accessed at 1-800-558-5253 using code 21291674. The conference call will also be broadcast live over the internet via TimberWest's website home page at <http://www.timberwest.com>. The webcast will be archived and available for an additional 90 days.

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Consolidated Statements of Operations

(in millions of dollars)
Unaudited

	Three months ended		Six months ended	
	June 30, 2006	June 30, 2005	June 30, 2006	June 30, 2005
Sales	\$ 145.6	\$ 107.6	\$ 271.9	\$ 206.2
Operating costs and expenses:				
Cost of products sold	106.9	84.3	202.1	160.2
Depreciation, depletion and amortization	2.2	2.4	4.4	4.3
Selling, administrative and other	3.9	3.1	7.5	6.6
	113.0	89.8	214.0	171.1
Operating earnings	32.6	17.8	57.9	35.1
Interest expense:				
Series A Subordinate Notes owned by unitholders	20.9	20.8	41.8	41.6
Long-term debt	3.6	3.4	7.4	6.5
Short-term debt	—	0.5	—	1.0
	24.5	24.7	49.2	49.1
Amortization of deferred financing costs	0.1	0.2	0.3	0.4
Other (income) expense	0.1	0.5	0.1	(5.8)
Pension plan annuitization (note 7)	17.2	—	17.2	—
	41.9	25.4	66.8	43.7
Loss before income taxes	(9.3)	(7.6)	(8.9)	(8.6)
Income tax expense (recovery) (note 2)	(21.5)	(0.9)	(24.0)	0.5
Net earnings (loss)	\$ 12.2	\$ (6.7)	\$ 15.1	\$ (9.1)
Basic and diluted earnings (loss) per common share (note 3)	\$ 0.16	\$ (0.09)	\$ 0.19	\$ (0.12)

Consolidated Statements of Retained Earnings

(in millions of dollars)
Unaudited

	Three months ended		Six months ended	
	June 30, 2006	June 30, 2005	June 30, 2006	June 30, 2005
Retained earnings, beginning of period	\$ 36.1	\$ 26.0	\$ 33.2	\$ 28.4
Net earnings (loss) for the period	12.2	(6.7)	15.1	(9.1)
Retained earnings, end of period	\$ 48.3	\$ 19.3	\$ 48.3	\$ 19.3

See accompanying notes to unaudited interim consolidated financial statements.

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Consolidated Balance Sheets

(in millions of dollars)

	As at June 30, 2006 <i>Unaudited</i>	As at December 31, 2005
Assets		
Current assets:		
Cash and cash equivalents	\$ 10.2	\$ 3.0
Accounts receivable	21.6	23.9
Inventories	48.5	48.2
Prepaid expenses and other current assets	9.6	11.2
Future income taxes	2.2	2.5
	92.1	88.8
Property, plant and equipment, net (note 4)	1,301.2	1,318.4
Other assets (note 5)	3.1	11.9
	\$ 1,396.4	\$ 1,419.1
Liabilities and Unitholders' Equity		
Current liabilities:		
Accounts payable and accrued liabilities	\$ 44.4	\$ 30.1
Distribution payable	20.9	20.9
	65.3	51.0
Revolving credit facilities (note 6)	-	37.0
Debentures	195.0	195.0
Long-term silviculture liability	3.3	3.2
Employee future benefits (note 7)	37.3	28.6
Future income taxes	160.4	184.9
	461.3	499.7
Series A Subordinate Notes owned by unitholders (note 8)	696.1	695.7
	1,157.4	1,195.4
Unitholders' equity:		
Share capital, consisting of common and preferred shares (note 8)	189.9	189.8
Contributed surplus	0.8	0.7
Retained earnings	48.3	33.2
	239.0	223.7
	\$ 1,396.4	\$ 1,419.1

See accompanying notes to unaudited interim consolidated financial statements.

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Consolidated Statements of Cash Flows

(in millions of dollars)
Unaudited

	Three months ended		Six months ended	
	June 30, 2006	June 30, 2005	June 30, 2006	June 30, 2005
Cash provided by (used in):				
Operating activities:				
Net earnings (loss)	\$ 12.2	\$ (6.7)	\$ 15.1	\$ (9.1)
Items not involving cash:				
Depreciation, depletion and amortization	2.3	2.6	4.7	4.7
(Gain) loss on sale of property, plant and equipment	(6.1)	0.5	(2.7)	(6.3)
Future income tax expense (recovery)	(21.6)	(1.1)	(24.2)	0.1
Other non-cash items	16.0	0.2	16.6	0.6
	2.8	(4.5)	9.5	(10.0)
Changes in non-cash working capital:				
Accounts receivable	1.5	0.1	2.3	(13.5)
Inventories	6.2	(15.3)	(0.3)	(8.4)
Prepaid expenses and other	(3.1)	(2.8)	1.6	(2.7)
Accounts payable and accrued liabilities	0.8	(1.2)	14.3	6.9
Distribution payable	-	-	-	0.1
	8.2	(23.7)	27.4	(27.6)
Financing activities:				
Issuance of Stapled Units on exercise of options:				
Series A Subordinate Notes	0.2	1.4	0.4	3.2
Share capital	0.1	0.3	0.1	1.0
	0.3	1.7	0.5	4.2
Forfeited distribution equivalent awards	-	0.2	-	0.2
Revolving credit facilities	(11.0)	22.7	(37.0)	14.3
	(10.7)	24.6	(36.5)	18.7
Investing activities:				
Proceeds from sale of property, plant and equipment	11.4	3.8	16.9	30.6
Additions to property, plant and equipment	(1.1)	(4.5)	(1.5)	(22.3)
Other assets	1.4	(0.2)	0.9	(1.0)
	11.7	(0.9)	16.3	7.3
Increase (decrease) in cash and cash equivalents	9.2	-	7.2	(1.6)
Cash and cash equivalents, beginning of period	1.0	-	3.0	1.6
Cash and cash equivalents, end of period	\$ 10.2	\$ -	\$ 10.2	\$ -
Supplemental information:				
Interest on Series A Subordinate Notes paid to unitholders	\$ 20.9	\$ 20.8	\$ 41.8	\$ 41.5
Other interest paid	\$ 7.0	\$ 7.4	\$ 7.4	\$ 7.8
Income taxes paid	\$ 0.2	\$ 0.2	\$ 0.3	\$ 0.3

See accompanying notes to unaudited interim consolidated financial statements.

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Notes to Unaudited Interim Consolidated Financial Statements

For the three and six months ended June 30, 2006 and 2005

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, 2005.

2. Income Taxes

	Three months ended		Six months ended	
	June 30, 2006	June 30, 2005	June 30, 2006	June 30, 2005
Current income tax expense				
Large corporation tax	\$ 0.1	\$ 0.2	\$ 0.2	\$ 0.4
Future income tax expense (recovery)	(21.6)	(1.1)	(24.2)	0.1
	\$ (21.5)	\$ (0.9)	\$ (24.0)	\$ 0.5

During the three months ended June 30, 2006, a number of changes to Canadian federal income tax rates were substantively enacted, including: elimination of the Large Corporations Tax (LCT), effective January 1, 2006; elimination of the 4% surtax effective January 1, 2008; and the reduction of the federal general corporate income tax rate to 20.5% for 2008, 20% for 2009, and 19% for 2010 and subsequent years. These changes will result in a reduction in the combined federal and provincial statutory corporate income tax rate from its present rate of 34.12% to 32.5% for 2008, 32.0% for 2009, and 31.0% for 2010 and subsequent years. As a result of these future income tax rate reductions, the Company's future income tax liability was reduced by \$14.8 million as at June 30, 2006, and a future income tax recovery of \$14.8 million was recorded for the three and six month periods ended June 30, 2006.

During the three months ended June 30, 2006, the Company entered into an agreement with a financial institution to purchase annuities for all retirees in the Company's salaried employee defined benefit pension plans (see note 7). As a result of this transaction, the Company's future income tax liability was reduced by \$5.8 million as at June 30, 2006, and a future income tax recovery of \$5.8 million was recorded for the three and six month periods ended June 30, 2006.

3. Earnings per Share

	Three months ended		Six months ended	
	June 30, 2006	June 30, 2005	June 30, 2006	June 30, 2005
Net earnings (loss)	\$ 12.2	\$ (6.7)	\$ 15.1	\$ (9.1)
Basic weighted average number of common shares	77,516,784	77,168,284	77,506,046	77,079,076
Incremental common shares from potential exercise of options	75,545	127,272	75,852	147,127
Diluted weighted average number of common shares	77,592,329	77,295,556	77,581,898	77,226,203
Basic and diluted net earnings (loss) per common share	\$ 0.16	\$ (0.09)	\$ 0.19	\$ (0.12)

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Notes to Unaudited Interim Consolidated Financial Statements

For the three and six months ended June 30, 2006 and 2005

4. Property, Plant and Equipment

Property, plant and equipment at June 30, 2006, includes private timberlands with a carrying value of \$1,214.0 million. This amount includes a valuation increase adjustment of \$389.8 million recorded in the year ended December 31, 2000 resulting from the adoption of Section 3465 – *Income Taxes* of the CICA Handbook, which was mandatory for fiscal years ending on or after January 1, 2000.

5. Other Assets

	As at June 30, 2006	As at December 31, 2005
Deferred debt issue costs	\$ 1.2	\$ 1.4
Receivable on sale of property, plant and equipment	0.5	0.5
Other	1.4	1.7
Prepaid pension benefits (note 7)	–	8.3
	<u>\$ 3.1</u>	<u>\$ 11.9</u>

6. Revolving Credit Facilities

As at June 30, 2006, the Company had no borrowings on available credit facilities and had commitments of \$16.9 million relating to outstanding letters of credit, including \$16.3 million issued under its demand bank guarantee facility and \$0.6 million issued under its \$100.0 million long-term unsecured revolving facility.

7. Employee Future Benefits

	As at June 30, 2006	As at December 31, 2005
Pension benefits	\$ 7.7	\$ –
Non-pension post-retirement benefits	29.6	28.6
	<u>\$ 37.3</u>	<u>\$ 28.6</u>

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 second quarter of 2006, the Company entered into an agreement with a financial institution to purchase annuities for all retirees in the Company's salaried employee defined benefit pension plans. Effective April 15, 2006, \$89.7 million of pension obligations were transferred to the financial institution at a cost to the Company of \$1.1 million. In addition, the Company recorded a \$17.2 million non-cash pension expense in the second quarter of 2006 related to this transaction, representing the unamortized net actuarial loss associated with retiree pension obligations at the transaction date that would have otherwise been amortized over the expected life of the pension plan.

TIMBERWEST FOREST CORP.

Notes to Unaudited Interim Consolidated Financial Statements

For the three and six months ended June 30, 2006 and 2005

7. Employee Future Benefits (continued)

Summary information about the Company's defined benefit plans other than the multi-employer defined benefit plan, in aggregate, is as follows:

	As at June 30, 2006	As at December 31, 2005
Fair value of plan assets	\$ 7.5	\$ 97.4
Accrued benefit obligation	18.5	106.4
Excess of accrued benefit obligation over plan assets	(11.0)	(9.0)
Unamortized net actuarial loss	3.3	17.3
Net asset (accrued liability)	\$ (7.7)	\$ 8.3

For the three months ended June 30, 2006, the Company recorded an expense of \$17.9 million for pension benefit costs (2005 – \$0.7 million), including \$17.2 million related to the annuitization transaction, and made cash payments of \$1.7 million to fund current and future service costs (2005 – \$1.0 million), including \$1.1 million related to the annuitization transaction. For the six months ended June 30, 2006, the Company recorded an expense of \$18.2 million for pension benefit costs (2005 – \$1.1 million), including \$17.2 million related to the annuitization transaction completed in the second quarter, and made cash payments of \$2.7 million to fund current and future service costs (2005 – \$1.8 million), including \$1.1 million related to the annuitization transaction completed in the second quarter.

Subsequent to June 30, 2006, the Company entered into an agreement with a financial institution to purchase annuities for members of one of the Company's remaining small defined benefit pension plans. Effective July 14, 2006, approximately \$1.0 million of pension obligations and \$1.4 million of pension assets were transferred to the financial institution. As this pension plan was in a surplus position at the time of this transaction, there was no cost to the Company and no pension expense has been recorded in relation to this transaction.

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 June 30, 2006, the Company recorded an expense of \$2.0 million for non-pension benefit costs (2005 – \$0.9 million) and made cash payments of \$0.4 million to fund current benefit costs (2005 – \$0.6 million). For the six months ended June 30, 2006, the Company recorded an expense of \$3.0 million for non-pension benefit costs (2005 – \$1.8 million) and made cash payments of \$1.0 million to fund current benefit costs (2005 – \$1.1 million).

TIMBERWEST FOREST CORP.

Notes to Unaudited Interim Consolidated Financial Statements

For the three and six months ended June 30, 2006 and 2005

8. Stapled Units

	Stapled Unit Components			
	Number	Series A Subordinate Notes	Share Capital (consisting of common and preferred shares)	Total
Six months ended June 30, 2005:				
Balance, December 31, 2004	76,907,017	\$ 690.5	\$ 187.8	\$ 878.3
Issuance of Stapled Units on exercise of options	357,846	3.2	1.0	4.2
Balance, June 30, 2005	77,264,863	\$ 693.7	\$ 188.8	\$ 882.5
Six months ended June 30, 2006:				
Balance, December 31, 2005	77,487,571	\$ 695.7	\$ 189.8	\$ 885.5
Issuance of Stapled Units on exercise of options	42,092	0.4	0.1	0.5
Balance, June 30, 2006	77,529,663	\$ 696.1	\$ 189.9	\$ 886.0

The Company issues equity by way of Stapled Units. Each Stapled Unit consists 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.

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.

TIMBERWEST FOREST CORP.

Notes to Unaudited Interim Consolidated Financial Statements

For the three and six months ended June 30, 2006 and 2005

9. 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 June 30, 2006, no Stapled Unit options were granted (2005 – 6,000 Stapled Unit options were granted at an exercise price of \$14.98). For the six months ended June 30, 2006, 245,238 Stapled Unit options were granted at an average exercise price of \$13.94 (2005 – 348,998 Stapled Unit options were granted at an average exercise price of \$15.79).

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:

	2006	2005
Risk-free interest rate	4.1%	3.5%
Expected life (years)	5.0	5.0
Expected volatility	20.3%	20.0%
Dividend yield	8.0%	6.8%
Number of options granted	245,238	348,998
Fair value of each option granted	\$0.92	\$1.30

The compensation cost for the 245,238 Stapled Unit options granted between January 1, 2006 and June 30, 2006 is \$226,000 (2005 – 348,998 Stapled Unit options were granted with a compensation cost of \$454,900). The compensation cost of Stapled Unit option awards is amortized against earnings over the three-year vesting period of the underlying options and an expense of \$73,000 and \$143,000 has been recognized in net earnings for the three and six month periods ended June 30, 2006, respectively, (2005 – \$104,000 and \$169,000, respectively,) for option awards made in fiscal 2003 through 2006, with a corresponding credit to contributed surplus.

Under the Company's Distribution Equivalent Plan, the Company awards Stapled Unit option holders an amount equal to actual distributions paid on the Company's Stapled Units. Awards granted under the Distribution Equivalent Plan vest under the same terms that apply to the corresponding options and can only be exercised at the time of exercise of the corresponding options. The Company applies the principles of the fair value-based method of accounting for stock-based compensation to awards granted under this plan. Awards are accrued on a basis equal to actual distributions paid on the Company's issued and outstanding Stapled Units and are charged to earnings as the underlying Stapled Unit options vest. During the three months ended June 30, 2006, \$0.3 million has been accrued for awards granted under this plan (2005 – \$0.3 million) and \$0.3 million has been amortized against earnings for the quarter (2005 – \$0.2 million). For the six months ended June 30, 2006, \$0.5 million has been accrued for awards granted under this plan (2005 – \$0.6 million) and \$0.5 million has been amortized against earnings for this period (2005 – \$0.5 million).

During the three months ended June 30, 2006, a total of 23,901 Stapled Unit options with an average exercise price of \$12.58 were exercised (2005 – 152,517 Stapled Unit options with an average exercise price of \$11.20 were exercised and 28,612 Stapled Unit options with an average exercise price of \$14.42 were cancelled). For the six months ended June 30, 2006, a total of 42,092 Stapled Unit options with an average exercise price of \$12.39 were exercised (2005 – 357,846 Stapled Unit options with an average exercise price of \$11.81 were exercised and 51,819 Stapled Unit options with an average exercise price of \$14.24 were cancelled).

10. Comparative Figures

Certain comparative figures have been reclassified to conform to the current year presentation.

TIMBERWEST FOREST CORP.

Supplemental Information

Unaudited

	Three months ended		Six months ended	
	June 30, 2006	June 30, 2005	June 30, 2006	June 30, 2005
Sales by Product				
<i>(in millions of dollars)</i>				
Log sales				
Domestic	\$ 34.4	\$ 32.3	\$ 69.8	\$ 69.4
Export – Asia	43.5	32.5	79.1	56.5
Export – US	16.2	15.3	30.8	26.8
Total log sales	94.1	80.1	179.7	152.7
Lumber	33.9	22.6	61.9	41.2
Wood chips and other	5.5	4.3	11.6	9.8
Real estate	12.1	0.6	18.7	2.5
	\$ 145.6	\$ 107.6	\$ 271.9	\$ 206.2
Sales Volume				
Logs (<i>thousand m³</i>)				
Domestic	430.2	436.4	897.3	923.4
Export – Asia	331.1	239.8	597.4	414.9
Export – US	176.3	166.4	332.1	298.0
	937.6	842.6	1,826.8	1,636.3
Lumber (<i>million fbm</i>)	51.0	41.1	98.5	76.1
Log Sales Mix (<i>thousand m³</i>)				
Fir	665.9	535.9	1,264.4	983.6
Hembal	127.6	166.7	254.5	366.3
Cedar	83.5	80.2	160.7	172.2
Other	60.6	59.8	147.2	114.2
	937.6	842.6	1,826.8	1,636.3
Production Volume				
Logs (<i>thousand m³</i>)				
Public tenures	209.4	253.5	420.8	308.8
Private timberlands	721.5	789.8	1,603.1	1,481.1
	930.9	1,043.3	2,023.9	1,789.9
Lumber (<i>million fbm</i>)	47.3	29.2	96.1	76.1
Earnings Before Interest, Taxes, Depreciation and Amortization (EBITDA)*				
<i>(in millions of dollars)</i>				
Net earnings (loss)	\$ 12.2	\$ (6.7)	\$ 15.1	\$ (9.1)
Add (deduct):				
Interest on Series A Subordinate Notes paid to unitholders	20.9	20.8	41.8	41.6
Interest on long-term debt	3.6	3.4	7.4	6.5
Interest on short-term debt	–	0.5	–	1.0
Income tax expense (recovery)	(21.5)	(0.9)	(24.0)	0.5
Depreciation, depletion and amortization	2.2	2.4	4.4	4.3
Amortization of deferred financing costs	0.1	0.2	0.3	0.4
EBITDA	\$ 17.5	\$ 19.7	\$ 45.0	\$ 45.2

* 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.

Corporate Profile

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, have an approximate average annual growth rate of 8.0 m³ per hectare per year on the productive land base, 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 38,000 hectares of the Company's private forest lands have been identified as having greater value as real estate properties and will progressively be made available for higher uses over the next ten to fifteen years. The Company reviews its land base on a periodic basis to update the size of its portfolio of higher-use properties.

Forward Looking Statements

The statements which are not historical facts contained in this release 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.

Additional Information

TimberWest Stapled Units are listed on the Toronto Stock Exchange under the symbol "TWF.UN".

For further information, please contact:

Bev Park

Vice-President, Finance and Chief Financial Officer

Telephone: (604) 654-4600

Facsimile: (604) 654-4662

Email: invest@timberwest.com

Visit our website at: www.timberwest.com