



**For immediate release: October 19, 2004**

## **TIMBERWEST DELIVERS ANOTHER STRONG QUARTER AND INCREASES LONG-RUN SUSTAINABLE YIELD ON THE COMPANY'S PRIVATE TIMBERLANDS**

Vancouver (BC) – TimberWest has turned in a strong third quarter due to increased operating earnings and the receipt of \$14.0 million from the 1995 expropriation of timber harvesting rights on provincially owned lands.

“Our other significant news this quarter is an increase in the long-run sustainable yield on our private timberlands, from 2.3 million m<sup>3</sup> to 2.5 million m<sup>3</sup> on the basis of improvements in the underlying growth rates of the forest inventory due to yield increases from a range of silviculture practices,” said President and CEO Paul McElligott. As such, the Company expects future harvests from its private timberlands to be at a rate of 2.5 million m<sup>3</sup> per year, plus or minus 10% in any given year.

The Company generated distributable cash of \$35.9 million or basic and diluted distributable cash of \$0.47 per weighted average Stapled Unit for the quarter ended September 30, 2004, compared to \$12.0 million or basic and diluted distributable cash of \$0.15 per weighted average Stapled Unit for Q3, 2003. On a year-to-date basis, TimberWest has generated distributable cash of \$107.1 million or basic and diluted distributable cash of \$1.40 per weighted average Stapled Unit compared to \$42.4 million or basic and diluted distributable cash of \$0.56 per weighted average Stapled Unit for the same period in 2003. This year-over-year increase is the combined result of: improved operating margins from timberland operations; higher net sales and operating earnings from our sawmill; \$16.7 million in cash proceeds for the sale of Tree Farm Licence 46 in Q2, 2004; a \$2.7 million restructuring charge taken in Q2, 2004 related to the business transformation initiative; capital expenditures in the first nine months of 2004 that were \$12.5 million lower than the same period in 2003; and the receipt of \$14.0 million for the 1995 expropriation which provided distributable cash of \$0.18 per Stapled Unit.

President and CEO Paul McElligott said: “The improved operating earnings in both our timberland and manufacturing divisions are noteworthy, especially given that timberland operations faced considerable restricted work and early-shift scheduling, as well as full curtailments due to summer heat conditions. Clearly our Operations Excellence strategy continues to work well for us.”

Operating earnings were \$23.0 million for Q3, 2004 compared to \$12.0 million for Q3, 2003. On a year-to-date basis, operating earnings were \$79.4 million compared to \$52.9 million for the first three quarters of 2003. This represents a 46% margin improvement. TimberWest continues to take costs out of the system and improve the competitive position of the Company.

The Elk Falls lumbermill continues to be cash and earnings positive even after being assessed international prices for the logs it consumes.

As announced last quarter, TimberWest is moving to competitively bid the remainder of its road building and timber harvesting activities to stump to dump contractors (some 50% of timber harvesting work is already done by independent contractors).

“We have completed the first two phases of a three-phase bidding process and are now moving toward final negotiations with bidders. We view this change as a natural progression of our Operations Excellence strategy. It will align our business model with the rest of North America, further reduce costs and improve our flexibility to respond to market changes,” McElligott said.

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In the interim, the Timberland Operations division has implemented alternate shifts, which vary depending on crew size, equipment, type of work and location, in three operating areas. The change is another outcome of the new Coast Master Agreement with the IWA, which provides for more cost-effective shifts to be introduced. TimberWest will realize savings through increased equipment utilization, reduced overtime and reduced transportation costs per productive hour worked.

The Company also announced its quarterly distribution of \$0.269 per Stapled Unit, payable on January 15, 2005, to unitholders of record on January 1, 2005. Since TimberWest's inception in July 1997, including the \$20.6 million distribution paid on October 15, 2004, the Company has distributed \$546.1 million to unitholders.

## Quarterly Financial Highlights

TimberWest generated distributable cash<sup>1</sup> of \$35.9 million or basic and diluted distributable cash of \$0.47 per weighted average Stapled Unit for the quarter ended September 30, 2004, compared to distributable cash of \$12.0 million or basic and diluted distributable cash of \$0.15 per weighted average Stapled Unit for the same period in 2003. The increase in distributable cash from the prior year can be attributed to higher operating earnings in the third quarter of 2004, reflecting both higher net sales and improved operating margins, and the receipt of \$14.0 million in proceeds, or \$0.18 per Stapled Unit, as settlement for the 1995 expropriation of timber harvesting rights. Earnings available for distribution<sup>1</sup> for the third quarter of 2004, before provision for future income taxes, were \$33.0 million or \$0.43 per basic and diluted weighted average Stapled Unit compared to \$8.2 million or \$0.11 per basic and diluted weighted average Stapled Unit for the same quarter in 2003. Net sales for the third quarter of 2004 were \$113.9 million compared to net sales of \$100.3 million reported for the third quarter of 2003. Operating earnings were \$23.0 million for the third quarter of 2004 compared to \$12.0 million for the same period in 2003, representing a 68% improvement in the operating margin year over year. Earnings before interest, taxes, depreciation and amortization (EBITDA)<sup>1</sup> for the quarter ended September 30, 2004, before the expropriation settlement proceeds which have been accounted for as an extraordinary item, were \$25.6 million or \$0.33 per basic and diluted weighted average Stapled Unit compared to \$14.8 million or \$0.19 per basic and diluted weighted average Stapled Unit for the same period in 2003. Earnings for the quarter ended September 30, 2004, before the extraordinary item, were \$16.9 million or basic and diluted earnings before extraordinary item of \$0.05 per weighted average common share, compared to earnings of \$6.3 million or a basic and diluted loss of \$0.14 per weighted average common share for the same period in 2003. Net earnings for the quarter ended September 30, 2004, were \$25.9 million or basic and diluted net earnings of \$0.16 per weighted average common share, compared to net earnings of \$6.3 million or a basic and diluted net loss of \$0.14 per weighted average common share for the same period in 2003.

On September 24, 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 have been recorded as an extraordinary item in the consolidated statements of earnings, net of \$5.0 million in income taxes affected at statutory tax rates. There will be no cash taxes payable on this settlement.

## Year to Date Financial Highlights

TimberWest generated distributable cash of \$107.1 million or basic and diluted distributable cash of \$1.40 per weighted average Stapled Unit for the nine months ended September 30, 2004, compared to distributable cash of \$42.4 million or basic and diluted distributable cash of \$0.56 per weighted average Stapled Unit for the same period in 2003. The increase in distributable cash from the prior year can be attributed to several factors, including: higher operating earnings for the first nine months of 2004, reflecting both higher net sales and improved operating margins compared to the same period in 2003; increased proceeds from the sale of property, plant and equipment, including \$16.7 million in cash proceeds from the

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<sup>1</sup> 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 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 Supplementary Information included in this press release.

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sale of Tree Farm Licence 46 (TFL 46) in the second quarter of 2004; a \$2.7 million restructuring charge taken in the second quarter of 2004 related to the business transformation initiative; capital expenditures in the first nine months of 2004 that were \$12.5 million lower relative to the same period in 2003; and the receipt of \$14.0 million in proceeds, or \$0.18 per Stapled Unit, as settlement for the 1995 expropriation of timber harvesting rights. Earnings available for distribution, before provision for future income taxes, for the first nine months of 2004 were \$85.6 million or \$1.12 per basic and diluted weighted average Stapled Unit compared to \$40.9 million or \$0.54 per basic and diluted weighted average Stapled Unit for the comparable period in 2003. Net sales for the first nine months of 2004 were \$346.9 million compared to net sales of \$336.2 million reported for the first nine months of 2003. Operating earnings were \$79.4 million for the first nine months of 2004 compared to \$52.9 million for the same period in 2003, representing a 46% margin improvement compared to the first nine months of 2003. EBITDA for the nine months ended September 30, 2004, before the expropriation settlement proceeds which have been accounted for as an extraordinary item, were \$92.6 million or \$1.21 per basic and diluted weighted average Stapled Unit compared to \$61.6 million or \$0.81 per basic and diluted weighted average Stapled Unit for the same period in 2003. Earnings for the nine months ended September 30, 2004, before the extraordinary item, were \$55.7 million or basic and diluted earnings before extraordinary item of \$0.21 per weighted average common share, compared to earnings of \$25.5 million or a basic and diluted loss of \$0.27 per weighted average common share for the same period in 2003. Net earnings for the nine months ended September 30, 2004, were \$64.7 million or basic and diluted net earnings of \$0.32 per weighted average common share, compared to net earnings of \$25.5 million or a basic and diluted net loss of \$0.27 per weighted average common share for the same period in 2003.

As noted previously, the Company reached a settlement with the Province of British Columbia for compensation relating to the 1995 expropriation of timber harvesting rights in the Walbran Valley and Hitchie Creek areas. The \$14.0 million in proceeds received have been recorded as an extraordinary item in the consolidated statements of earnings, net of \$5.0 million in income taxes affected at statutory tax rates. There will be no cash taxes payable on this settlement.

On June 24, 2004, the Company announced a plan to transform its business operations to focus on forest land management through a restructuring of the Company's log harvesting operations and a move to contract out all logging activities. Operating results for the nine months ended September 30, 2004, include a provision of \$2.7 million for costs relating to this restructuring.

Early in the first quarter of 2004, the Company signed a definitive agreement for the sale of the public land portion of its southern Vancouver Island operations, referred to as TFL 46. The Company completed the sale of TFL 46 on May 6, 2004, at a sale price of \$17.9 million.

During the second quarter of 2004, the Company completed and received a renewal of short-term financing from a Canadian bank in the form of an unsecured 364-day committed revolving facility in the amount of \$40.0 million due on May 25, 2005.

During the first quarter of 2004, the Company completed and received a renewal of short-term financing from a Canadian bank consisting of an unsecured demand bank guarantee facility in the amount of \$16.0 million and an unsecured 364-day committed revolving facility in the amount of \$40.0 million, both due on March 1, 2005. Under the 364-day facility, funds are available to the Company in both Canadian and US dollars by way of adjusted prime rate based loans, Canadian dollar bankers' acceptances and letters of credit or guarantee.

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## Summary of Financial Results

(In millions of dollars, except as otherwise indicated)

Unaudited	Three Months Ended September 30		Nine Months Ended September 30	
	2004	2003	2004	2003
Net sales	\$ 113.9	\$ 100.3	\$ 346.9	\$ 336.2
Operating earnings	\$ 23.0	\$ 12.0	\$ 79.4	\$ 52.9
Earnings before extraordinary item	\$ 16.9	\$ 6.3	\$ 55.7	\$ 25.5
Extraordinary item – expropriation settlement proceeds, net of taxes	9.0	-	9.0	-
<b>Net earnings</b>	<b>\$ 25.9</b>	<b>\$ 6.3</b>	<b>\$ 64.7</b>	<b>\$ 25.5</b>
Distributable cash				
Net earnings	\$ 25.9	\$ 6.3	\$ 64.7	\$ 25.5
Income tax benefit related to distributions	7.3	3.3	22.0	15.9
Earnings available for distribution	33.2	9.6	86.7	41.4
Future income tax recovery	(5.2)	(1.4)	(6.1)	(0.5)
Future income tax expense on extraordinary item	5.0	-	5.0	-
Earnings available for distribution before provision for future income taxes	33.0	8.2	85.6	40.9
Add (deduct):				
Depreciation, depletion and amortization	2.5	2.5	8.6	8.4
Proceeds from the sale of real estate	2.3	1.9	3.3	5.0
Proceeds from sale of other property, plant and equipment	0.4	1.1	18.0	1.9
Gain on sale of property, plant and equipment	(0.5)	(1.5)	(5.9)	(2.8)
Additions to property, plant and equipment	(2.5)	(2.0)	(4.5)	(17.0)
Other non-cash items	0.7	1.8	2.0	6.0
	2.9	3.8	21.5	1.5
<b>Distributable cash</b>	<b>\$ 35.9</b>	<b>\$ 12.0</b>	<b>\$ 107.1</b>	<b>\$ 42.4</b>
Consists of:				
Distributable cash before extraordinary item	\$ 21.9	\$ 12.0	\$ 93.1	\$ 42.4
Distributable cash from extraordinary item	14.0	-	14.0	-
	\$ 35.9	\$ 12.0	\$ 107.1	\$ 42.4
Distributions paid	\$ 20.6	\$ 20.6	\$ 61.7	\$ 61.6
Per weighted average Stapled Unit amounts: (Dollars per Stapled Unit unless otherwise noted)				
Basic and diluted earnings available for distribution before provision for future income taxes	\$ 0.43	\$ 0.11	\$ 1.12	\$ 0.54
Basic and diluted distributable cash:				
– before extraordinary item	\$ 0.29	\$ 0.15	\$ 1.22	\$ 0.56
– from extraordinary item	0.18	-	0.18	-
	\$ 0.47	\$ 0.15	\$ 1.40	\$ 0.56
Distributions paid	\$ 0.27	\$ 0.27	\$ 0.81	\$ 0.81
Basic and diluted earnings (loss) per weighted average common share before extraordinary item	\$ 0.05	\$ (0.14)	\$ 0.21	\$ (0.27)
Extraordinary item, net of taxes	0.11	-	0.11	-
<b>Basic and diluted net earnings (loss) per weighted average common share</b>	<b>\$ 0.16</b>	<b>\$ (0.14)</b>	<b>\$ 0.32</b>	<b>\$ (0.27)</b>

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## Summary of Financial Position

(In millions of dollars, except as otherwise indicated)

	As at September 30, 2004	As at December 31, 2003
<i>Unaudited</i>		
Net non-cash working capital (excluding cash and cash equivalents, short-term borrowings and distribution payable)	\$ 38.7	\$ 40.6
Cash and cash equivalents	\$ 7.4	\$ -
Total assets	\$ 1,448.9	\$ 1,440.9
Total debt <sup>2</sup>	\$ 213.0	\$ 255.0
Unitholders' equity	\$ 904.3	\$ 875.5
Total capitalization <sup>2</sup>	\$ 1,117.3	\$ 1,130.5
Debt to total capitalization <sup>2</sup>	19%	23%
Stapled Units outstanding (thousands)	76,572	76,246
Basic weighted average Stapled Units (thousands)	76,535	76,234
Diluted weighted average Stapled Units (thousands)	76,702	76,309

## Outlook

In Japan, demand for logs and lumber is expected to hold firm as economic reports indicate wood based housing starts should continue at a consistent pace. Delivered prices for logs from all major supply regions continue at levels higher than last year.

However, Japanese sawmillers cutting imported logs are having a tough time with higher log prices, higher freight rates and a weaker yen. So far they have absorbed the higher costs as they have not been able to pass them on to customers. Whether these sawmillers are successful in driving down log prices will depend on the availability of supply. With the US demand expected to remain strong, supply is likely to remain tight in Japan in the near term. At this time it appears that second growth fir prices, supported by the strength of the US market, should continue to be stable in the near term with hemlock prices declining slightly under supply pressure. Lumber markets in Japan are showing signs of oversupply with all supply regions having produced at high levels over the third quarter, a situation causing lumber prices to back up.

High levels of demand together with high lumber prices should continue to keep log prices stable on the US West Coast. Housing starts are expected to remain strong through the balance of the year and into the early part of 2005. However, economic reports are beginning to call for a slowdown in housing starts sometime in 2005 as the effect of higher interest rates begins to be felt. While second growth fir continues to be stable in this market, cedar has come under some pressure as demand has waned. In addition, as the US dollar continues to weaken against the Canadian dollar, Canadian exporters into this market will have a tough time maintaining realizations at current levels.

The Company is continuing with its Operations Excellence program and expects to eventually have all timber harvesting and road building contracted out. We believe this initiative will continue to improve TimberWest's competitiveness. The Company has implemented all of the provisions of the new collective agreement with the IWA and these too are improving our competitiveness.

We expect to finish the year with distributable cash generated, even excluding one-time items, in excess of our distribution requirements and with the Company in its strongest financial condition since its inception.

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<sup>2</sup> 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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## Quarterly Conference Call

TimberWest will hold a conference call at 8:00am PT (11:00am ET) on Wednesday, October 20, 2004, to discuss results of the third quarter. To access the conference call, listeners should dial 1-800-298-3006. For those unable to participate in the live call, a recording of the call will be available until November 3, 2004, and can be accessed at 1-800-558-5253 using code 21206353. 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.

## 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 m<sup>3</sup> of logs, which can vary in the range of 2.3 million m<sup>3</sup> to 2.7 million m<sup>3</sup>, are located on Vancouver Island and predominantly support the growth of Douglas fir forests, a premium species used for structural purposes. Third party auditors have certified that the management of the Company's private forest land conforms to the objectives and performance measures of the American Forest and Paper Association's Sustainable Forestry Initiative (SFI<sup>®</sup>). The computation of the Company's new long-run sustainable yield will be validated by the Company's external SFI<sup>®</sup> auditor, KPMG Performance Registrar Inc., in the second quarter of 2005. TimberWest also owns renewable Crown harvest rights to 0.8 million m<sup>3</sup> of logs per year and operates a lumbermill located near Campbell River, BC. In addition, approximately 6,000 hectares of the Company's private forest lands have been identified as having greater value as real estate properties and are progressively being made available for higher uses.

## 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 and harvesting fee changes and other actions by governmental authorities, the ability to implement business strategies and pursue business opportunities, labour relations, weather conditions, forest fires and other natural phenomena and other risks and uncertainties described in TimberWest's public filings with securities regulatory authorities.

# TIMBERWEST FOREST CORP.

## Consolidated Statements of Operations

(in millions of dollars)  
Unaudited

	Three months ended September 30		Nine months ended September 30	
	2004	2003	2004	2003
Net sales	\$ 113.9	\$ 100.3	\$ 346.9	\$ 336.2
Operating costs and expenses:				
Cost of products sold	84.7	83.6	249.5	265.4
Depreciation, depletion and amortization	2.3	2.1	7.7	7.3
Selling, administrative and other	3.9	2.6	10.3	10.6
	90.9	88.3	267.5	283.3
Operating earnings	23.0	12.0	79.4	52.9
Interest expense	3.9	3.9	12.0	11.7
Amortization of deferred financing costs	0.2	0.4	0.9	1.1
Other income (note 11)	(0.3)	(0.7)	(5.5)	(1.4)
	3.8	3.6	7.4	11.4
Earnings before income taxes and extraordinary item	19.2	8.4	72.0	41.5
Income tax expense (note 3)	2.3	2.1	16.3	16.0
Earnings before extraordinary item	16.9	6.3	55.7	25.5
Extraordinary item – expropriation settlement proceeds, net of applicable income taxes (note 4)	9.0	-	9.0	-
Net earnings	\$ 25.9	\$ 6.3	\$ 64.7	\$ 25.5
<i>Basic and diluted earnings (loss) per common share before extraordinary item (note 5)</i>	\$ 0.05	\$ (0.14)	\$ 0.21	\$ (0.27)
<i>Extraordinary item, net of applicable income taxes</i>	0.11	-	0.11	-
<i>Basic and diluted net earnings (loss) per common share (note 5)</i>	\$ 0.16	\$ (0.14)	\$ 0.32	\$ (0.27)

See accompanying notes to unaudited interim consolidated financial statements.

# TIMBERWEST FOREST CORP.

## Consolidated Balance Sheets

(in millions of dollars)

	As at September 30, 2004 <i>Unaudited</i>	As at December 31, 2003
<b>Assets</b>		
Current assets:		
Cash and cash equivalents (note 6)	\$ 7.4	\$ -
Accounts receivable	23.7	15.4
Inventories	56.2	45.7
Prepaid expenses and other current assets	7.0	6.4
Future income taxes	2.6	2.6
	<b>96.9</b>	70.1
Property, plant and equipment, net (note 7)	1,337.9	1,356.5
Other assets	14.1	14.3
	<b>\$ 1,448.9</b>	\$ 1,440.9
<b>Liabilities and Unitholders' Equity</b>		
Current liabilities:		
Revolving credit facilities (note 8)	\$ 18.0	\$ 60.0
Accounts payable and accrued liabilities	50.8	29.5
Distribution payable	20.6	20.5
	<b>89.4</b>	110.0
Debentures	195.0	195.0
Long-term silviculture liability	4.0	4.6
Non-pension post-retirement benefits	26.7	25.3
Future income taxes	229.5	230.5
	<b>544.6</b>	565.4
Unitholders' equity:		
Stapled Units, consisting of Series A Subordinate Notes, preferred shares and common shares	874.4	870.6
Contributed surplus	0.3	0.2
Retained earnings	29.6	4.7
	<b>904.3</b>	875.5
	<b>\$ 1,448.9</b>	\$ 1,440.9

See accompanying notes to unaudited interim consolidated financial statements.

# TIMBERWEST FOREST CORP.

## Consolidated Statements of Cash Flows

(in millions of dollars)  
Unaudited

	Three months ended September 30		Nine months ended September 30	
	2004	2003	2004	2003
<b>Cash provided by (used in):</b>				
<b>Operating activities:</b>				
Earnings before income taxes and extraordinary item	\$ 19.2	\$ 8.4	\$ 72.0	\$ 41.5
Cash income taxes (note 3)	(0.2)	(0.2)	(0.4)	(0.6)
	19.0	8.2	71.6	40.9
Items not involving cash:				
Depreciation, depletion and amortization	2.5	2.5	8.6	8.4
Gain on sale of property, plant and equipment	(0.5)	(1.5)	(5.9)	(2.8)
Other non-cash items	0.9	-	0.9	0.3
	21.9	9.2	75.2	46.8
Changes in non-cash working capital:				
Accounts receivable	1.1	4.1	(8.3)	(1.9)
Inventories	4.5	17.6	(10.5)	12.1
Prepaid expenses and other working capital	(0.8)	(0.6)	(0.6)	(0.4)
Accounts payable and accrued liabilities	(2.3)	(0.9)	21.3	(4.6)
	24.4	29.4	77.1	52.0
<b>Financing activities:</b>				
Distributions paid to unitholders	(20.6)	(20.6)	(61.7)	(61.6)
Issuance of Stapled Units on exercise of options	1.0	-	3.8	0.5
Revolving credit facilities	(11.2)	(75.7)	(42.0)	57.1
Issuance of 7.0% debentures	-	65.8	-	65.8
Redemption of 6.5% debentures	-	-	-	(106.5)
Deferred debt issue costs	-	(0.7)	-	(0.7)
	(30.8)	(31.2)	(99.9)	(45.4)
<b>Investing activities:</b>				
Proceeds from sale of property, plant and equipment	2.7	3.0	21.3	6.9
Additions to property, plant and equipment	(2.5)	(2.0)	(4.5)	(17.0)
Other assets	(0.4)	0.8	(0.6)	2.5
Expropriation settlement proceeds (extraordinary item (note 4))	14.0	-	14.0	-
	13.8	1.8	30.2	(7.6)
<b>Increase (decrease) in cash and cash equivalents</b>	<b>7.4</b>	<b>-</b>	<b>7.4</b>	<b>(1.0)</b>
<b>Cash and cash equivalents, beginning of period</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>1.0</b>
<b>Cash and cash equivalents, end of period</b>	<b>\$ 7.4</b>	<b>\$ -</b>	<b>\$ 7.4</b>	<b>\$ -</b>
<b>Supplemental information:</b>				
Interest paid	\$ 0.5	\$ 1.6	\$ 8.6	\$ 11.9
Income taxes paid	\$ 0.2	\$ 0.1	\$ 0.6	\$ 0.6

See accompanying notes to unaudited interim consolidated financial statements.

# TIMBERWEST FOREST CORP.

## Consolidated Statements of Unitholders' Equity

(in millions of dollars)  
Unaudited

	Stapled Units		Contributed surplus	Retained earnings	Total unitholders' equity
	Number	Amount			
<b>For the nine months ended September 30, 2003:</b>					
Balance, December 31, 2002	76,192,788	\$ 870.1	\$ 0.1	\$ 44.6	\$ 914.8
Issuance of Stapled Units on exercise of options	53,334	0.5	-		0.5
Net earnings	-	-	-	25.5	25.5
Interest on Series A Subordinate Notes	-	-	-	(61.6)	(61.6)
Income tax benefit thereon (note 3)	-	-	-	15.9	15.9
<b>Balance, September 30, 2003</b>	<b>76,246,122</b>	<b>\$ 870.6</b>	<b>\$ 0.1</b>	<b>\$ 24.4</b>	<b>\$ 895.1</b>
<b>For the nine months ended September 30, 2004:</b>					
Balance, December 31, 2003	76,246,122	\$ 870.6	\$ 0.2	\$ 4.7	\$ 875.5
Issuance of Stapled Units on exercise of options	<b>326,305</b>	<b>3.8</b>	-		<b>3.8</b>
Stapled Unit option awards	-	-	<b>0.1</b>		<b>0.1</b>
Net earnings	-	-	-	<b>64.7</b>	<b>64.7</b>
Interest on Series A Subordinate Notes	-	-	-	<b>(61.8)</b>	<b>(61.8)</b>
Income tax benefit thereon (note 3)	-	-	-	<b>22.0</b>	<b>22.0</b>
<b>Balance, September 30, 2004</b>	<b>76,572,427</b>	<b>\$ 874.4</b>	<b>\$ 0.3</b>	<b>\$ 29.6</b>	<b>\$ 904.3</b>

See accompanying notes to unaudited interim consolidated financial statements.

# TIMBERWEST FOREST CORP.

## Notes to Unaudited Interim Consolidated Financial Statements

For the three and nine months ended September 30, 2004 and 2003

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, 2003, except for a change in accounting for asset retirement obligations as described in note 2.

### 2. Accounting Policy Change

Effective January 1, 2004, the Company adopted the recommendations of the Canadian Institute of Chartered Accountants' (CICA) Handbook Section 3110 – *Asset Retirement Obligations*. Section 3110 establishes standards for the recognition, measurement and disclosure of liabilities for asset retirement obligations and the associated asset retirement costs. Under this new standard, asset retirement obligations must be recognized at their fair value in the period in which they are incurred if a reasonable estimate of the fair value can be made, with fair value of a liability determined with reference to the present value of estimated future cash flows. This standard changed the Company's accounting for silviculture liabilities accrued for future reforestation costs. This change in accounting policy has been applied retroactively, however, there has been no material effect on the Company's consolidated financial statements.

The Company may have additional asset retirement obligations, however, the recommendations of this new standard have not been applied to assets with indeterminate useful lives as the associated asset retirement obligations are not reasonably estimable and therefore the fair value of the liabilities cannot be established.

### 3. Income Taxes

	Three months ended September 30		Nine months ended September 30	
	2004	2003	2004	2003
Current income tax expense				
Large corporation tax	\$ 0.2	\$ 0.2	\$ 0.4	\$ 0.6
Income tax benefit on interest on Series A Subordinate Notes charged directly to distributions	7.3	3.3	22.0	15.9
	7.5	3.5	22.4	16.5
Future income tax recovery	(5.2)	(1.4)	(6.1)	(0.5)
	\$ 2.3	\$ 2.1	\$ 16.3	\$ 16.0

The provision for future income taxes for the three and nine months ended September 30, 2004, both include 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 in the third quarter of 2004 (see note 4).

# TIMBERWEST FOREST CORP.

## Notes to Unaudited Interim Consolidated Financial Statements

For the three and nine months ended September 30, 2004 and 2003

### 4. Extraordinary Item – Expropriation Settlement Proceeds

On September 24, 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 have been 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 has non-capital losses carried forward from previous taxation years, income taxes will not be paid on the proceeds from this settlement. The future income tax expense on earnings before the extraordinary item for the three and nine months ended September 30, 2004, have both been reduced by \$5.0 million to recognize the benefit of the losses utilized and fully offsets the tax expense charged to the extraordinary item.

### 5. Earnings per Share

	Three months ended September 30		Nine months ended September 30	
	2004	2003	2004	2003
Earnings before extraordinary item	\$ 16.9	\$ 6.3	\$ 55.7	\$ 25.5
Less: Distributions on Series A Subordinate Notes	(20.6)	(20.5)	(61.8)	(61.6)
Tax benefit thereon	7.3	3.3	22.0	15.9
	(13.3)	(17.2)	(39.8)	(45.7)
Earnings (loss) attributable to common shares before extraordinary item	3.6	(10.9)	15.9	(20.2)
Extraordinary item, net of income taxes (note 4)	9.0	-	9.0	-
Earnings (loss) attributable to common shares	\$ 12.6	\$ (10.9)	\$ 24.9	\$ (20.2)
Basic weighted average number of common shares	76,535,214	76,246,122	76,427,642	76,230,564
Incremental common shares from potential exercise of options	166,776	65,827	116,355	74,597
Diluted weighted average number of common shares	76,701,990	76,311,949	76,543,997	76,305,161
Basic and diluted earnings (loss) before extraordinary item per common share	\$ 0.05	\$ (0.14)	\$ 0.21	\$ (0.27)
Extraordinary item, net of income taxes	0.11	-	0.11	-
Basic and diluted earnings (loss) per common share	\$ 0.16	\$ (0.14)	\$ 0.32	\$ (0.27)

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

### 6. Cash and Cash Equivalents

	As at September 30, 2004	As at December 31, 2003
Cash	\$ 2.4	\$ -
Short-term investment	5.0	-
Cash and cash equivalents	\$ 7.4	\$ -

# TIMBERWEST FOREST CORP.

## Notes to Unaudited Interim Consolidated Financial Statements

For the three and nine months ended September 30, 2004 and 2003

### 7. Property, Plant and Equipment

Property, plant and equipment at September 30, 2004, include \$1,218.4 million carrying value for private timberlands. This amount includes a valuation increase adjustment of \$390.8 million recorded in the year ended December 31, 2000, resulting from the adoption of Section 3465 – *Income Taxes* of the CICA Handbook, which was mandatory for fiscal years ending on or after January 1, 2000.

### 8. Revolving Credit Facilities

On March 2, 2004, the Company completed and received a renewal of short-term financing from a Canadian bank. The renewed financing consists of an unsecured demand bank guarantee facility in the amount of \$16.0 million and an unsecured 364-day committed revolving facility in the amount of \$40.0 million, both due on March 1, 2005. Under the 364-day facility, funds are available to the Company in both Canadian and US dollars by way of adjusted prime rate based loans, Canadian dollar bankers' acceptances and letters of credit or guarantee.

On May 26, 2004, the Company completed and received a renewal of short-term financing from a Canadian bank. The renewed financing consists of an unsecured 364-day committed revolving facility in the amount of \$40.0 million that is due on May 25, 2005. Under the 364-day facility, funds are available to the Company by way of Canadian dollar prime rate based loans, bankers' acceptances, letters of credit or guarantee and US dollar LIBOR.

As at September 30, 2004, the Company had borrowings of \$18.0 million on the Company's two \$40.0 million unsecured 364-day revolving facilities. As at September 30, 2004, there were no borrowings on the Company's \$125.0 million unsecured revolving credit facility.

### 9. 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. The triennial actuarial valuation of the Company's pension obligations as at December 31, 2003, was completed during the first quarter of 2004. The valuation identified a going-concern deficit of \$3.9 million and a solvency deficit of \$5.1 million for the defined benefit segment of the Company's pension benefit plans. Based on the results of the valuation, commencing in 2004, the Company is required to fund annual current service costs of approximately \$1.4 million, including \$1.1 million for required contributions under the defined contribution segment and \$0.3 million for required contributions under the defined benefit segment. In addition, the Company is required to pay \$0.8 million in 2004 to fund the \$5.1 million solvency deficit in the defined benefit segment.

For the three months ended September 30, 2004, the Company recorded an expense of \$0.7 million for pension benefit costs (2003 – \$0.9 million) and made cash payments of \$0.1 million to fund current service costs (2003 – nil). For the nine months ended September 30, 2004, the Company recorded an expense of \$2.3 million for pension benefit costs (2003 – \$2.7 million) and made cash payments of \$0.5 million to fund current service costs (2003 – nil).

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. For the three months ended September 30, 2004, the Company recorded an expense of \$0.9 million for non-pension benefit costs (2003 – \$0.7 million) and made cash payments of \$0.4 million to fund current and future benefit costs (2003 – \$0.4 million). For the nine months ended September 30, 2004, the Company recorded an expense of \$2.7 million for non-pension benefit costs (2003 – \$2.1 million) and made cash payments of \$1.3 million to fund current and future benefit costs (2003 – \$1.3 million).

# TIMBERWEST FOREST CORP.

## Notes to Unaudited Interim Consolidated Financial Statements

For the three and nine months ended September 30, 2004 and 2003

### 10. 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 quarter ended September 30, 2004, no Stapled Unit options were granted (2003 – nil). For the nine months ended September 30, 2004, 313,220 Stapled Unit options were granted at an average exercise price of \$12.21 (2003 – 267,047 Stapled Unit options were granted at an average exercise price of \$11.90).

The Company has applied the fair value method of accounting for Stapled Unit option grants awarded on or after January 1, 2003. The compensation cost for the 313,220 Stapled Unit options granted between January 1, 2004 and September 30, 2004 is \$269,000 (2003 – 267,047 Stapled Unit options were granted with a compensation cost of \$285,000). The compensation cost is amortized against earnings over the three-year vesting period of the underlying options and charges of \$55,000 and \$134,000 were recognized in net earnings for the three and nine month periods ended September 30, 2004, respectively, (2003 – \$24,000 and \$63,000, respectively,) with a corresponding credit to contributed surplus. 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:

	2004	2003
Risk-free interest rate	4.5%	4.3%
Expected life (years)	5.0	5.0
Expected volatility	20.6%	25.3%
Dividend yield	8.6%	9.1%
Number of options granted	313,220	267,047
Fair value of options granted (dollars)	\$0.86	\$1.07

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 earning per common share reported for the three and nine month periods ended September 30, 2004 and 2003 as the stock-based compensation cost related to these options was nominal.

Under the Company's Distribution Equivalent Plan, the Company awards Stapled Unit option holders an amount equal to actual distributions paid on the Company's Stapled Units. Awards granted under the Distribution Equivalent Plan vest under the same terms that apply to the corresponding options and can only be exercised at the time of exercise of the corresponding options. The Company applies the principles of the fair value based method of accounting for stock-based compensation to awards granted under this plan. Awards are accrued on a basis equal to actual distributions paid on the Company's issued and outstanding Stapled Units and are charged to earnings as the underlying Stapled Unit options vest. For the three months ended September 30, 2004, \$0.3 million has been accrued for awards granted under this plan (2003 – \$0.3 million) and \$0.3 million has been amortized against earnings for the quarter (2003 – \$0.3 million). For the nine months ended September 30, 2004, \$1.0 million has been accrued for awards granted under this plan (2003 – \$0.8 million) and \$1.0 million has been amortized against earnings (2003 – \$0.8 million).

During the three months ended September 30, 2004, a total of 96,855 Stapled Unit options with an average exercise price of \$10.51 were exercised and 10,173 Stapled Unit options with an average exercise price of \$12.08 were cancelled (2003 – no Stapled Unit options were exercised and 1,366 Stapled Unit options with an exercise price of \$12.84 were cancelled). For the nine months ended September 30, 2004, a total of 326,305 Stapled Unit options with an average exercise price of \$11.63 were exercised and 10,173 Stapled Unit options with an average exercise price of \$12.08 were cancelled (2003 – 53,334 Stapled Unit options with an exercise price of \$8.91 were exercised and 9,367 Stapled Unit options with an average exercise price of \$12.94 were cancelled).

# TIMBERWEST FOREST CORP.

## Notes to Unaudited Interim Consolidated Financial Statements

For the three and nine months ended September 30, 2004 and 2003

### 11. Sale of Tree Farm Licence 46 (TFL 46)

On May 6, 2004, the Company completed the sale of its southern Vancouver Island public land operations, referred to as TFL 46. TFL 46 represented part of the Company's public land logging business, included timber rights to an annual allowable cut of approximately 500,000 m<sup>3</sup> on 76,574 hectares of Crown land, and had been operated by TimberWest as part of its Honeymoon Bay operation on southwest Vancouver Island.

The sale price for these assets was \$17.9 million. Under the terms of the sale, silviculture liabilities of \$0.4 million were assumed by the purchaser and leased equipment with a value of \$6.0 million was transferred to the purchaser, relieving the Company of commitments for future payments under operating leases in the amount of \$2.6 million. The gain on the sale of these operations has been included in other income on the consolidated statements of operations.

### 12. Business Transformation

On June 24, 2004, the Company announced a plan to transform its business model through a restructuring of the Company's log harvesting operations and a move to contract out all logging activities. At the time of the announcement, 50 percent of the Company's log harvesting was performed by contractors. Under the transformation plan, the Company will eventually contract out the remainder of its logging activities to unionized contractors on a competitive-bid basis.

Operating earnings for the nine month period ended September 30, 2004, reflect a provision of \$2.7 million in cost of products sold for costs relating to this restructuring.

# TIMBERWEST FOREST CORP.

## Supplemental Information

Unaudited

Three months ended  
September 30

Nine months ended  
September 30

2004 2003

2004 2003

### Sales by Product

(in millions of dollars)

	2004	2003	2004	2003
Log sales				
Domestic	\$ 42.4	\$ 39.8	\$ 143.5	\$ 137.4
Export – Asia	24.3	22.0	82.2	84.1
Export – US	14.6	14.4	38.1	48.8
Total log sales	81.3	76.2	263.8	270.3
Lumber	25.8	14.8	66.9	46.1
Wood chips and other	4.7	5.9	13.0	13.2
Real estate	2.1	3.4	3.2	6.6
	\$ 113.9	\$ 100.3	\$ 346.9	\$ 336.2

### Sales Volume

Logs (thousand m<sup>3</sup>)

Domestic	510.5	470.3	1,666.9	1,548.2
Export – Asia	154.5	148.1	514.1	531.8
Export – US	139.0	168.3	360.7	542.1
Total log sales	804.0	786.7	2,541.7	2,622.1

Lumber (million fbm)

	46.6	36.5	117.8	101.1
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### Log Sales Mix (thousand m<sup>3</sup>)

Fir	369.9	446.6	1,446.8	1,512.3
Hembal	264.5	228.1	602.9	660.2
Cedar	76.5	61.5	256.1	270.8
Other	93.1	50.5	235.9	178.8
	804.0	786.7	2,541.7	2,622.1

### Production Volume

Logs (thousand m<sup>3</sup>)

Public tenures	201.8	55.5	743.3	542.6
Private timberlands	559.0	613.9	1,953.6	1,871.7
Total log production	760.8	669.4	2,696.9	2,414.3

Lumber (million fbm)

	48.4	16.5	131.6	91.5
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### Earnings Before Interest, Taxes, Depreciation and Amortization (EBITDA)\*

(in millions of dollars)

Net earnings	\$ 25.9	\$ 6.3	\$ 64.7	\$ 25.5
Add (deduct):				
Interest expense	3.9	3.9	12.0	11.7
Income tax expense	2.3	2.1	16.3	16.0
Depreciation, depletion and amortization	2.3	2.1	7.7	7.3
Amortization of deferred financing costs	0.2	0.4	0.9	1.1
Extraordinary item, net of income taxes	(9.0)	-	(9.0)	-
EBITDA	\$ 25.6	\$ 14.8	\$ 92.6	\$ 61.6

\* EBITDA does not have a standardized meaning prescribed by Canadian generally accepted accounting principles and may not be comparable to similar measures presented by other companies. Management believes that the presentation of this measure will enhance an investors understanding of the Company's operating performance.

# TIMBERWEST FOREST CORP.

## **Additional Information**

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

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