



For immediate release: February 8, 2007

TIMBERWEST ANNOUNCES 2006 FOURTH QUARTER RESULTS

Company generates distributable cash of \$27.5 million, or \$0.35 per Stapled Unit; strong log pricing and real estate sales offset decline in log sales volumes during the fourth quarter.

Vancouver (BC) – TimberWest generated distributable cash¹ of \$27.5 million, or \$0.35 per stapled unit for the fourth quarter, and \$103.8 million of distributable cash, or \$1.34 per unit, for the year 2006. This compares to \$29.7 million of distributable cash for the fourth quarter of 2005, or \$0.38 per unit, and \$67.3 million, or \$0.87 per unit, for the year 2005.

“Weather-related production curtailments limited volume in both the third and fourth quarters this year,” said President and CEO Paul McElligott. “As a result, we had less available to sell into both domestic and export markets. In spite of weakness in the US log market, sales realizations for the quarter were strong at \$96 per m³ with demand from Japan remaining robust.”

Timberland results were weaker than this quarter last year primarily because of the low volume of log shipments. We shipped 644,000 m³ during the quarter, down from 990,000 m³ during the fourth quarter of 2005, to bring total shipments for the year to 3.1 million m³ (compared to 3.6 million m³ last year). Sales realizations in the fourth quarter of 2005 were \$90 per m³. We finished the year with average sales realizations higher than last year as well; \$98 per m³ compared to \$91 per m³. Unfortunately, production costs increased by \$3.25 per m³ for the year, primarily the result of higher input costs for our contractors.

“During the quarter, we sold real estate from Campbell River in the northern part of our holdings down to Sooke,” added McElligott. “Values remained strong across our entire real estate portfolio on Vancouver Island”.

Real estate sales were strong for the quarter and the year with net proceeds of \$13.9 million and \$32.9 million respectively. We sold properties with a wide range of end uses from residential, commercial, recreational, resort, and industrial, to small tree farms. The values varied by ultimate end use but we averaged about \$25,000 per hectare, or \$10,000 per acre, for land sold this year. Sales where entitlement work was done averaged \$50,000 per acre. Our search for a new Vice President to help us surface these values is progressing well.

Our Elk Falls lumber mill performed better this year but not well enough to encourage an offer from any prospective buyers. The mill is heavily focused on Japan and, with the Japanese lumber market remaining strong throughout 2006, it was able to run on three shifts all year. The sales process for the mill was still underway at year end with a final prospective purchaser performing due diligence. Countervailing duty refunds of \$3.4 million were received during the quarter, which included interest in the amount of \$0.4 million.

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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Outlook

In the near term, we continue to expect prices for logs and lumber to be weak in the US market while remaining strong in other markets. Weather-related curtailments throughout our region are causing log shortages, placing upward pressure on domestic log prices but also making it increasingly difficult to sell into export markets as local mills continue to block our export shipments using federal Notice 102. Proceedings on our Notice 102 lawsuit concluded in 2006 and we are awaiting a ruling from the Federal Court of Canada on this matter.

Margins in our core timberlands business are expected to be comparable to 2006 levels for 2007 while the sawmill's performance is expected to weaken as competition intensifies in the Japanese market. The collective agreement with the United Steelworkers Union expires in June 2007.

We expect to see real estate values hold on Vancouver Island and are looking forward to 2007 being another good sales year and a transition year for our real estate business unit as we build our organization and develop a longer range plan for our value-added activities.

While the US housing market is expected to remain weak in the short run, long term prospects for log demand from our region are very good. With Asia continuing to increase its demand for logs and lumber, with positive demographics in the US expected to result in the return to a strong housing market, and with the inevitable future supply shortages caused by the Mountain Pine Beetle infestation in the BC Interior and further harvest level reductions in eastern Canada, we believe demand and pricing for log and lumber products in our region will improve.

We are starting 2007 in a strong financial position and we expect to generate sufficient distributable cash in the year from both real estate and forestry operations to fund all of our unitholder distributions.

Financial Highlights

<i>(in millions of dollars)</i>	Three months ended December 31		Twelve months ended December 31	
	2006	2005	2006	2005
Sales	\$ 110.6	\$ 132.8	\$ 478.1	\$ 458.2
Operating earnings	25.5	21.0	94.7	70.1
Operating earnings - % of sales	23.1%	15.8%	19.8%	15.3%
Pension plan annuitization	-	-	17.7	-
Termination of fibre supply agreement	-	-	-	15.0
EBITDA ¹	27.9	26.5	85.9	71.9
Income tax recovery	(13.4)	(31.6)	(38.2)	(41.6)
Net earnings	14.8	30.9	17.1	4.8
Distributable cash	\$ 27.5	\$ 29.7	\$ 103.8	\$ 67.3

Earnings available for distribution for the three months ended December 31, 2006, before provision for future income taxes, were \$22.5 million or \$0.29 per basic and diluted weighted average Stapled Unit compared to earnings available for distribution before provision for income taxes of \$24.3 million or \$0.31 per basic and diluted weighted average Stapled Unit for the comparative period in 2005.

Distributable cash in 2006 benefited from strong operating results for the year, including higher average realizations on log and lumber sales due to a richer sales mix and improved pricing offset partially by higher costs, as well as increased real estate activity during 2006.

Quarterly Financial Highlights

Log sales for the three months ended December 31, 2006, were down compared to sales for the fourth quarter of 2005 due to weather related production curtailments during the third and fourth quarters of 2006. The increase in operating earnings as a percentage of sales in the fourth quarter was due to stronger pricing and a better end use sort mix compared to 2005 which had a higher proportion of lower-value hembal.

Average realizations on log sales for the quarter were \$96 per m³ primarily due to stronger pricing, a better species and end use sort mix, and higher volumes to Japan compared to the same period in 2005. However, log sales volumes were down, at 644,000 m³ primarily due to a lower opening log inventory resulting from

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prolonged harvesting curtailments in the third quarter due to the hot, dry weather and some early snowfalls that affected production during the fourth quarter. Earnings before interest, taxes, depreciation and amortization (EBITDA)¹ for the three months ended December 31, 2006, were \$27.9 million or \$0.36 per basic and diluted weighted average Stapled Unit compared to \$26.5 million or \$0.34 per basic and diluted weighted average Stapled Unit for the comparative period in 2005. The Company reported an income tax recovery of \$13.4 million for the three months ended December 31, 2006, representing a non-cash future income tax recovery. The Company generated net earnings for the three months ended December 31, 2006, of \$14.8 million, equating to basic and diluted net earnings of \$0.19 per weighted average common share compared to net earnings of \$30.9 million or basic and diluted net earnings of \$0.40 per weighted average common share for the comparative period in 2005.

Year to Date Financial Highlights

The year over year strengthening of the operating margin primarily reflects higher average realizations on log and lumber sales, which were \$98 per m³ and \$635 per mfbm, respectively, and an increase in lumber sales volumes to 184.6 mfbm, offset in part by a decrease in log sales volumes to 3.1 million m³, compared to the same period in 2005. A combination of improved log pricing and a richer end use sort mix during 2006 more than offset the adverse currency effects of a strong Canadian dollar, contributing to the higher sales realizations in the current year. Year-to-date results reflect a \$17.7 million non-cash pension expense related to the annuitization and transfer of certain pension plan obligations completed during the year. Year-to-date earnings results for 2005 reflect a \$15.0 million payment made in that period to terminate a fibre supply agreement. The Company reported an income tax recovery of \$38.2 million for the twelve months ended December 31, 2006, representing a non-cash future income tax recovery comprised primarily of a \$14.8 million recovery to reflect the effect of changes in Canadian federal income tax rates that were substantively enacted, a \$5.8 million recovery arising from the pension plan annuitization transaction, and a \$10.4 million recovery related to the utilization of non-capital tax losses.

Real estate proceeds for the year were \$32.9 million compared to \$13.9 million for 2005. 2005 proceeds from other assets included \$25.2 million related to equipment sales to TimberWest's contractors and \$3.7 million related to the timber reallocation agreement with the Province.

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Operating Highlights

	Three months ended December 31		Twelve months ended December 31	
	2006	2005	2006	2005
Log Sales (in millions of dollars)				
Domestic	\$ 31.6	\$ 35.0	\$ 127.8	\$ 141.4
Export – Asia	25.5	31.1	127.6	115.0
Export – US	4.8	22.7	47.8	71.5
Total log sales	\$ 61.9	\$ 88.8	\$ 303.2	\$ 327.9
Log Sales Realizations (\$/m ³)				
Domestic	83	69	79	72
Export – Asia	121	132	129	135
Export – US	91	91	97	90
	96	90	98	91
Log Sales Volume (thousand m ³)				
Domestic	381.3	504.5	1,609.5	1,965.8
Export – Asia	209.9	234.8	985.2	853.3
Export – US	53.0	250.8	492.5	795.7
	644.2	990.1	3,087.2	3,614.8
Log Sales Mix (thousand m ³)				
Fir	308.7	511.4	1,893.7	2,002.4
Hembal	221.5	325.9	662.9	1,013.5
Cedar	61.5	95.3	283.3	359.9
Other	52.5	57.5	247.3	239.0
	644.2	990.1	3,087.2	3,614.8
Log Production Volume (thousand m ³)				
Public tenures	76.3	175.1	711.2	761.0
Private timberlands	742.3	617.2	2,723.9	2,871.7
	818.6	792.3	3,435.1	3,632.7

Log sales for the fourth quarter of 2006 were lower compared to the same period in 2005 due to lower levels of product available for sale as logging operations on the Company's private timberlands were curtailed due to severe weather during the third and fourth quarters. Pricing levels in the fourth quarter of 2006 were supported by both a lower supply of logs in many of the Company's market segments and a stronger sales mix. The operating margin from timberland operations averaged 23% of log sales for the fourth quarter of 2006, compared to 21% of log sales for the fourth quarter of 2005, a result that reflects the net effect of lower log sales volumes, higher average log sales realizations and higher costs.

The flexibility provided by TimberWest's private timberland asset base allowed the Company to take advantage of strong markets early in the first half of the year by increasing harvest levels. However, the volume gains realized in the first half of the year were offset by weather related production curtailments during the third and fourth quarters of 2006. Average log sales realizations for 2006 were stronger than 2005 due to a better end use sort mix and improved pricing. The Canadian dollar was approximately 7% stronger relative to the US dollar during 2006 compared to 2005, and continued to negatively affect realizations. However, a combination of improved log pricing and a richer end use sort mix during 2006 more than offset the currency effects and contributed to higher sales realizations in the current year period. The operating margin from timberland operations for the twelve months of 2006 averaged 30% of log sales, compared to 26% of log sales for the comparative period in 2005. The improvement is attributed to higher log sales realizations, offset by higher input costs for logging contractors.

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	Three months ended December 31		Twelve months ended December 31	
	2006	2005	2006	2005
Sales by Product <i>(in millions of dollars)</i>				
Lumber	\$ 29.5	\$ 28.1	\$ 117.3	\$ 92.2
Wood chips	\$ 3.2	\$ 3.0	\$ 12.9	\$ 10.9
Sales Realizations				
Lumber (\$/mfbm)	666	587	635	552
Wood Chips (\$/m ³)	38	35	36	35
Sales Volume				
Lumber (million fbm)	44.3	47.9	184.6	166.9
Wood Chips (thousand m ³)	82.8	86.6	361.7	310.3
Lumber Production Volume (million fbm)	41.5	44.1	183.4	167.6

Higher sales realizations in the fourth quarter and for the year ended 2006 reflect continued strength in demand from and short supply in Japan.

Production at the sawmill for the year 2006 was up approximately 9% compared to production in the same period of 2005, reflecting the effect of five weeks of market-related downtime taken during the second quarter of 2005. There was no downtime in 2006.

Wood chip sales for the three months ended December 31, 2006, compared to the same period in 2005 were higher due to a \$3/m³ increase in average chip sales realizations. Wood chip sales for the year 2006 were higher reflecting greater chip volumes available for sale due to increased production at the sawmill, and by slightly higher average chip sales realizations.

	Three months ended December 31		Twelve months ended December 31	
	2006	2005	2006	2005
Real Estate Sales (in millions of dollars)	\$ 15.0	\$ 10.2	\$ 36.0	\$ 15.1
Real Estate Net Proceeds (in millions of dollars)	\$ 13.9	\$ 9.7	\$ 32.9	\$ 13.9
Real Estate Net Proceeds (\$/acre)	11,936	11,560	10,314	8,515

	Three months ended December 31		Twelve months ended December 31	
	2006	2005	2006	2005
<i>(in millions of dollars)</i>				
Earnings Before Interest, Taxes, Depreciation and Amortization (EBITDA)* <i>(in millions of dollars)</i>				
Net earnings	\$ 14.8	\$ 30.9	\$ 17.1	\$ 4.8
Add (deduct):				
Interest on Series A Subordinate Notes paid to unitholders	20.9	20.9	83.6	83.3
Interest on long-term debt	0.2	4.0	11.2	14.8
Interest on short-term debt	3.4	–	3.4	1.1
Income tax recovery	(13.4)	(31.6)	(38.2)	(41.6)
Depreciation, depletion and amortization	1.8	2.2	8.2	8.8
Amortization of deferred financing costs	0.2	0.1	0.6	0.7
EBITDA	\$ 27.9	\$ 26.5	\$ 85.9	\$ 71.9

* 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.

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Highlights and Significant Transactions

Pension Plan Annuitization

During the year, 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. \$90.7 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 \$17.7 million non-cash pension expense in 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 believes these transactions provide security for retirees, while eliminating an encumbrance from its business at a minimal cost.

Countervailing and Antidumping Duty Refund

During the fourth quarter, the Company received a net refund of \$3.4 million. The refund consisted of Countervailing and Antidumping duty refunds in the amount of \$3.0 million and accrued interest in the amount of \$0.4 million. Pursuant to the Softwood Lumber Products Export Charge Act, a charge of 18.06% in the amount of \$0.8 million was imposed on the total refund of \$4.2 million.

Cash Distribution

On February 8, 2007, TimberWest announced a distribution of \$0.269 per Stapled Unit, payable April 15, 2007, to unitholders of record on April 1, 2007. From inception to December 31, 2006, the Company has generated distributable cash of \$767.9 million while, including the January 15, 2007 distribution of \$20.9 million, the Company has paid out \$733.7 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.

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Summary of Financial Position

(In millions of dollars, except as otherwise indicated)
Unaudited

	As at December 31, 2006	As at December 31, 2005
Net non-cash working capital (excluding cash, short-term borrowings and distribution payable)	\$ 35.9	\$ 55.7
Cash	\$ 9.3	\$ 3.0
Total assets	\$ 1,381.6	\$ 1,419.1
Total debt ²	\$ 195.0	\$ 232.0
Series A Subordinate Notes owned by unitholders	\$ 697.0	\$ 695.7
Unitholders' equity	\$ 241.6	\$ 223.7
Total capitalization ²	\$ 1,133.6	\$ 1,151.4
Debt-to-total capitalization ratio ²	17.2%	20.1%
Stapled Units outstanding	77,635,254	77,487,571
Basic weighted average Stapled Units outstanding	77,544,968	77,207,309
Diluted weighted average Stapled Units outstanding	77,618,494	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 December 31		Twelve months ended December 31	
	2006	2005	2006	2005
Sales	\$ 110.6	\$ 132.8	\$ 478.1	\$ 458.2
Operating earnings	\$ 25.5	\$ 21.0	\$ 94.7	\$ 70.1
Net earnings	\$ 14.8	\$ 30.9	\$ 17.1	\$ 4.8
Distributable cash:				
Net earnings	\$ 14.8	\$ 30.9	\$ 17.1	\$ 4.8
Interest on Series A Subordinate Notes owned by unitholders	20.9	20.9	83.6	83.3
Earnings available for distribution	35.7	51.8	100.7	88.1
Future income tax recovery	(13.2)	(27.5)	(38.2)	(38.1)
Earnings available for distribution before provision for future income taxes	22.5	24.3	62.5	50.0
Add (deduct):				
Depreciation, depletion and amortization	2.0	2.3	8.8	9.5
Proceeds from the sale of real estate	13.9	9.7	32.9	13.9
Proceeds from sale of other property, plant and equipment	–	0.1	0.1	28.9
Gain on sale of property, plant and equipment	(10.9)	(6.8)	(14.9)	(13.0)
Additions to property, plant and equipment	(0.6)	(0.1)	(4.3)	(22.6)
Other non-cash items	0.6	0.2	18.7	0.6
	5.0	5.4	41.3	17.3
Distributable cash	\$ 27.5	\$ 29.7	\$ 103.8	\$ 67.3
Reconciliation of cash flow from operations before changes in working capital to distributable cash:				
Cash flow from operations before changes in working capital	\$ (6.8)	\$ (0.6)	\$ (8.5)	\$ (34.5)
Add (deduct):				
Interest on Series A Subordinate Notes owned by unitholders	20.9	20.9	83.6	83.3
Proceeds from the sale of real estate	13.9	9.7	32.9	13.9
Proceeds from sale of other property, plant and equipment	–	0.1	0.1	28.9
Additions to property, plant and equipment	(0.6)	(0.1)	(4.3)	(22.6)
Other non-cash items	0.1	(0.3)	–	(1.7)
Distributable cash	\$ 27.5	\$ 29.7	\$ 103.8	\$ 67.3
Distributions paid	\$ 20.9	\$ 20.8	\$ 83.6	\$ 83.1
Per weighted average Stapled Unit amounts: <i>(Dollars per Stapled Unit)</i>				
Basic and diluted earnings available for distribution before provision for future income taxes	\$ 0.29	\$ 0.31	\$ 0.81	\$ 0.65
Basic and diluted distributable cash	\$ 0.35	\$ 0.38	\$ 1.34	\$ 0.87
Distributions paid	\$ 0.27	\$ 0.27	\$ 1.08	\$ 1.08
Per weighted average common share amounts: <i>(Dollars per common share)</i>				
Basic net earnings	\$ 0.19	\$ 0.40	\$ 0.22	\$ 0.06
Diluted net earnings	\$ 0.19	\$ 0.40	\$ 0.22	\$ 0.06

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Quarterly Conference Call

TimberWest will hold a conference call at 9:00am PDT (12:00pm EDT) on Friday, February 9, 2007, to discuss results of the fourth quarter. To access the conference call, listeners should dial 1-888-939-6305. For those unable to participate in the live call, a recording of the call will be available until February 23, 2007, and can be accessed at 1-800-558-5253 using code 21316511. 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 December 31		Twelve months ended December 31	
	2006	2005	2006	2005
Sales	\$ 110.6	\$ 132.8	\$ 478.1	\$ 458.2
Operating costs and expenses:				
Cost of products sold	82.8	106.3	364.1	365.1
Countervailing and antidumping duty refund (note 3)	(3.0)	–	(3.0)	–
Depreciation, depletion and amortization	1.8	2.2	8.2	8.8
Selling, administrative and other	3.5	3.3	14.1	14.2
	85.1	111.8	383.4	388.1
Operating earnings	25.5	21.0	94.7	70.1
Interest expense:				
Series A Subordinate Notes owned by unitholders	20.9	20.9	83.6	83.3
Long-term debt	0.2	4.0	11.2	14.8
Short-term debt	3.4	–	3.4	1.1
	24.5	24.9	98.2	99.2
Amortization of deferred financing costs	0.2	0.1	0.6	0.7
Other income	(0.6)	(3.3)	(0.7)	(8.0)
Pension plan annuitization (note 4)	–	–	17.7	–
Termination of fibre supply agreement (note 5)	–	–	–	15.0
	24.1	21.7	115.8	106.9
Earnings (loss) before income taxes	1.4	(0.7)	(21.1)	(36.8)
Income tax recovery (note 6)	(13.4)	(31.6)	(38.2)	(41.6)
Net earnings	\$ 14.8	\$ 30.9	\$ 17.1	\$ 4.8
<i>Earnings per common share (note 7)</i>				
<i>Basic</i>	\$ 0.19	\$ 0.40	\$ 0.22	\$ 0.06
<i>Diluted</i>	\$ 0.19	\$ 0.40	\$ 0.22	\$ 0.06

Consolidated Statements of Retained Earnings

(in millions of dollars)
Unaudited

	Three months ended December 31		Twelve months ended December 31	
	2006	2005	2006	2005
Retained earnings, beginning of period, as previously reported	\$ 35.5	\$ 2.3	\$ 33.2	\$ 28.4
Change in accounting policy for stock-based compensation (note 2)	(0.2)	–	(0.2)	–
Retained earnings, beginning of period, as restated	35.3	2.3	33.0	28.4
Net earnings for the period	14.8	30.9	17.1	4.8
Retained earnings, end of period	\$ 50.1	\$ 33.2	\$ 50.1	\$ 33.2

See accompanying notes to unaudited interim consolidated financial statements.

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Consolidated Balance Sheets

(in millions of dollars)

	As at December 31, 2006 <i>Unaudited</i>	As at December 31, 2005
Assets		
Current assets:		
Cash and cash equivalents	\$ 9.3	\$ 3.0
Accounts receivable	16.9	23.9
Inventories	49.0	48.2
Prepaid expenses and other current assets	5.6	11.2
Future income taxes	2.3	2.5
	83.1	88.8
Property, plant and equipment, net (note 8)	1,296.3	1,318.4
Other assets (note 9)	2.2	11.9
	\$ 1,381.6	\$ 1,419.1
Liabilities and Unitholders' Equity		
Current liabilities:		
Debentures	\$ 195.0	\$ -
Accounts payable and accrued liabilities	37.9	30.1
Distribution payable	20.9	20.9
	253.8	51.0
Credit facilities (note 10)	-	37.0
Debentures	-	195.0
Long-term silviculture liability	3.6	3.2
Employee future benefits (note 11)	39.2	28.6
Future income taxes	146.4	184.9
	443.0	499.7
Series A Subordinate Notes owned by unitholders (note 12)	697.0	695.7
	1,140.0	1,195.4
Unitholders' equity:		
Share capital, consisting of common and preferred shares (note 12)	190.4	189.8
Contributed surplus	1.1	0.7
Retained earnings	50.1	33.2
	241.6	223.7
	\$ 1,381.6	\$ 1,419.1

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 December 31		Twelve months ended December 31	
	2006	2005	2006	2005
Cash provided by (used in):				
Operating activities:				
Net earnings	\$ 14.8	\$ 30.9	\$ 17.1	\$ 4.8
Items not involving cash:				
Depreciation, depletion and amortization	2.0	2.3	8.8	9.5
(Gain) loss on sale of property, plant and equipment	(10.9)	(6.8)	(14.9)	(13.0)
Future income tax recovery	(13.2)	(27.5)	(38.2)	(38.1)
Other non-cash items	0.5	0.5	18.7	2.3
	(6.8)	(0.6)	(8.5)	(34.5)
Changes in non-cash working capital:				
Accounts receivable	(3.8)	(2.7)	7.0	(9.2)
Inventories	(6.6)	21.7	(0.8)	14.0
Prepaid expenses and other	3.1	1.2	5.6	(6.7)
Accounts payable and accrued liabilities	(1.3)	(16.3)	7.8	(5.4)
Distribution payable	–	0.1	–	0.2
	(15.4)	3.4	11.1	(41.6)
Financing activities:				
Issuance of Stapled Units on exercise of options:				
Series A Subordinate Notes	0.4	1.8	1.3	5.2
Share capital	0.3	0.9	0.6	1.9
	0.7	2.7	1.9	7.1
Demand credit facility	–	(0.5)	–	–
Revolving credit facilities	–	(12.5)	(37.0)	15.0
	0.7	(10.3)	(35.1)	22.1
Investing activities:				
Proceeds from sale of property, plant and equipment	13.9	9.8	33.0	42.8
Additions to property, plant and equipment	(0.6)	(0.1)	(4.3)	(22.6)
Other assets	0.4	0.2	1.6	0.7
	13.7	9.9	30.3	20.9
Increase (decrease) in cash and cash equivalents	(1.0)	3.0	6.3	1.4
Cash and cash equivalents, beginning of period	10.3	–	3.0	1.6
Cash and cash equivalents, end of period	\$ 9.3	\$ 3.0	\$ 9.3	\$ 3.0
Supplemental information:				
Interest on Series A Subordinate Notes paid to unitholders	\$ 20.9	\$ 20.8	\$ 83.6	\$ 83.1
Other interest paid	\$ 7.1	\$ 7.4	\$ 14.6	\$ 16.0
Income taxes paid	\$ (0.2)	\$ 0.1	\$ –	\$ 0.6

See accompanying notes to unaudited interim consolidated financial statements.

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Notes to Unaudited Interim Consolidated Financial Statements

For the three and twelve months ended December 31, 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, except for the accounting policy change as described in note 2.

2. Change in Accounting Policy

Prior to October 1, 2006, the Company recognized compensation cost for stock-based compensation awards to all employees over the vesting period of the awards. Effective October 1, 2006, the Company changed its policy of accounting for awards and now recognizes the compensation cost for employees eligible to retire at the grant date rather than over the vesting period. For employees who become eligible for retirement during the vesting period, compensation cost is recognized over the period from the grant date to the date of eligibility for retirement.

The Company made this change in accounting policy on a retroactive basis but prior years have not been restated. The cumulative adjustment to the opening balance of retained earnings is a decrease of \$0.2 million. In 2006, the effect on compensation was nil, deferred stock based compensation costs decreased \$0.1 million and contributed surplus increased \$0.1 million.

3. Countervailing and Antidumping Duty Refund

During the fourth quarter, the Company received a net refund of \$3.4 million. The refund consisted of Countervailing and Antidumping duty refunds in the amount of \$3.0 million and accrued interest in the amount of \$0.4 million. Pursuant to the Softwood Lumber Products Export Charge Act, a charge of 18.06% in the amount of \$0.8 million was imposed on the total refund of \$4.2 million.

4. Pension Plan Annuitization

In 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 (see notes 6 and 11).

In the third quarter of 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 cash cost to the Company, however, the Company recorded a \$0.5 million non-cash pension expense in the third quarter of 2006, representing the settlement loss on finalization of this transaction (see note 11).

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5. Termination of Fibre Supply Agreement

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

6. Income Taxes

	Three months ended December 31		Twelve months ended December 31	
	2006	2005	2006	2005
Current income tax expense				
Large corporation tax	\$ (0.2)	\$ -	\$ -	\$ 0.6
Federal income tax recovery	-	(4.1)	-	(4.1)
	(0.2)	(4.1)	-	(3.5)
Future income tax recovery	(13.2)	(27.5)	(38.2)	(38.1)
	\$ (13.4)	\$ (31.6)	\$ (38.2)	\$ (41.6)

In the second quarter of 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. These rate changes resulted in a future income tax recovery of \$14.8 million for the year ended December 31, 2006.

In 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 (see note 11). As a result of this transaction, the Company's future income tax liability was reduced by \$5.8 million.

Prior to the elimination of the LCT, the Company has paid installments in the amount of \$0.2 million, and at December 31, 2006 the Company had received refunds of the paid installments.

In the fourth quarter, the Company utilized non-capital tax losses, for which a full valuation allowance had been previously provided for accounting purposes, by recognizing unrealized gains on certain assets for tax purposes. As a result of these activities, the Company recorded a \$10.4 million (2005 - \$16.1 million) future income tax recovery.

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7. Earnings per Share

	Three months ended December 31		Twelve months ended December 31	
	2006	2005	2006	2005
Net earnings	\$ 14.8	\$ 30.9	\$ 17.1	\$ 4.8
Basic weighted average number of common shares	77,605,496	77,398,008	77,544,968	77,207,309
Incremental common shares from potential exercise of options	79,041	98,492	73,526	108,130
Diluted weighted average number of common shares	77,684,537	77,496,500	77,618,494	77,315,439
Basic net earnings per common share	\$ 0.19	\$ 0.40	\$ 0.22	\$ 0.06
Diluted net earnings per common share	\$ 0.19	\$ 0.40	\$ 0.22	\$ 0.06

8. Property, Plant and Equipment

Property, plant and equipment at December 31, 2006, includes private timberlands with a carrying value of \$1,214.9 million. This amount includes a valuation increase adjustment of \$389.8 million recorded in the year ended December 31, 2000 resulting from the adoption of Section 3465 – *Income Taxes* of the CICA Handbook, which was mandatory for fiscal years ending on or after January 1, 2000.

9. Other Assets

	As at December 31, 2006	As at December 31, 2005
Deferred debt issue costs	\$ 0.8	\$ 1.4
Receivable on sale of property, plant and equipment	0.5	0.5
Other	0.9	1.7
Prepaid pension benefits (note 11)	–	8.3
	\$ 2.2	\$ 11.9

10. Credit Facilities

As at December 31, 2006, the Company had no borrowings on available credit facilities and had commitments of \$16.8 million relating to outstanding letters of credit, including \$16.2 million issued under its demand bank guarantee facility and \$0.6 million issued under its \$100.0 million long-term unsecured revolving facility.

TIMBERWEST FOREST CORP.

Notes to Unaudited Interim Consolidated Financial Statements

For the three and twelve months ended December 31, 2006 and 2005

11. Employee Future Benefits

	As at December 31, 2006	As at December 31, 2005
Pension benefits	\$ 8.4	\$ -
Non-pension post-retirement benefits	30.8	28.6
	\$ 39.2	\$ 28.6

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.

As at December 31, 2005, the Company had a prepaid pension asset of \$8.3 million. In April 2006, the Company recorded a \$17.2 million non-cash unamortized actuarial loss on the purchase of annuities for all retirees in the Company's salaried defined benefit pension plans. The reduction in the total pension asset on annuitization has resulted in a pension benefit obligation of \$8.4 million.

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

	As at December 31, 2006	As at December 31, 2005
Fair value of plan assets	\$ 6.7	\$ 97.4
Accrued benefit obligation	17.7	106.4
Excess of accrued benefit obligation over plan assets	(11.0)	(9.0)
Unamortized net actuarial loss	2.6	17.3
Net asset (accrued liability)	\$ (8.4)	\$ 8.3

For the three months ended December 31, 2006, the Company recorded an expense of \$0.5 million for pension benefit costs (2005 – \$0.8 million), and made cash payments of \$0.1 million to fund current and future service costs (2005 – \$0.7 million). For the twelve months ended December 31, 2006, the Company recorded an expense of \$19.8 million for pension benefit costs (2005 – \$2.5 million), including a \$17.7 million non-cash cost related to the annuitization transactions completed in the second and third quarters (see note 4), and made cash payments of \$3.2 million to fund current and future service costs (2005 – \$3.3 million), including \$0.2 million (2005 – \$0.4 million) for required contributions under the DB Plans, \$0.1 million (2005 – \$1.2 million) to fund the deficit in the DB Plans, \$0.9 million (2005 – \$0.8 million) for benefit payments relating to unfunded DB Plans, \$0.9 million (2005 – \$0.9 million) for required contributions under the DC Plan and \$1.1 million (2005 – nil) to fund the settlement of the DB plans.

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 December 31, 2006, the Company recorded an expense of \$1.0 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 twelve months ended December 31, 2006, the Company recorded an expense of \$4.0 million for non-pension benefit costs (2005 – \$3.6 million) and made cash payments of \$1.8 million to fund current benefit costs (2005 – \$2.0 million).

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Notes to Unaudited Interim Consolidated Financial Statements

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12. Stapled Units

	Stapled Unit Components			Total
	Number	Series A Subordinate Notes	Share Capital (consisting of common and preferred shares)	
Twelve months ended December 31, 2005:				
Balance, December 31, 2004	76,907,017	\$ 690.5	\$ 187.8	\$ 878.3
Issuance of Stapled Units on exercise of options	580,554	5.2	2.0	7.2
Balance, December 31, 2005	77,487,571	\$ 695.7	\$ 189.8	\$ 885.5
Twelve months ended December 31, 2006:				
Balance, December 31, 2005	77,487,571	\$ 695.7	\$ 189.8	\$ 885.5
Issuance of Stapled Units on exercise of options	147,683	1.3	0.6	1.9
Balance, December 31, 2006	77,635,254	\$ 697.0	\$ 190.4	\$ 887.4

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 twelve months ended December 31, 2006 and 2005

13. 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. In the three months ended December 31, 2006, no Stapled Unit options were granted (2005 – nil). In the twelve months ended December 31, 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 in order to determine the compensation cost to the Company. 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 December 31, 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 \$53,000 and \$277,000 has been recognized in net earnings for the three and twelve month periods ended December 31, 2006, respectively, (2005 – \$50,000 and \$411,000 – restated (see note 2), 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. For the three months ended December 31, 2006, \$0.2 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 – \$0.3 million). For the twelve months ended December 31, 2006, \$1.0 million has been accrued for awards granted under this plan (2005 – \$1.1 million) and \$1.0 million has been amortized against earnings for this period (2005 – \$1.1 million).

In the three months ended December 31, 2006, a total of 52,166 Stapled Unit options with an average exercise price of \$12.40 were exercised and 11,863 Stapled Unit options with an average exercise price of \$14.52 were cancelled (2005 – 212,490 Stapled Unit options with an average exercise price of \$12.75 were exercised). In the twelve months ended December 31, 2006, a total of 147,683 Stapled Unit options with an average exercise price of \$12.52 were exercised and 17,500 Stapled Unit options with an average exercise price of \$14.93 were cancelled (2005 – 580,554 Stapled Unit options with an average exercise price of \$12.17 were exercised and 70,543 Stapled Unit options with an average exercise price of \$14.33 were cancelled).

14. Comparative Figures

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

TIMBERWEST FOREST CORP.

Supplemental Information

Unaudited

	Three months ended December 31		Twelve months ended December 31	
	2006	2005	2006	2005
Sales by Product (in millions of dollars)				
Log sales				
Domestic	\$ 31.6	\$ 35.0	\$ 127.8	\$ 141.4
Export – Asia	25.5	31.1	127.6	115.0
Export – US	4.8	22.7	47.8	71.5
Total log sales	61.9	88.8	303.2	327.9
Lumber	29.5	28.1	117.3	92.2
Wood chips and other	4.2	5.7	21.6	23.0
Real estate	15.0	10.2	36.0	15.1
	\$ 110.6	\$ 132.8	\$ 478.1	\$ 458.2
Sales Volume				
Logs (thousand m ³)				
Domestic	381.3	504.5	1,609.5	1,965.8
Export – Asia	209.9	234.8	985.2	853.3
Export – US	53.0	250.8	492.5	795.7
	644.2	990.1	3,087.2	3,614.8
Lumber (million fbm)	44.3	47.9	184.6	166.9
Log Sales Mix (thousand m³)				
Fir	308.7	511.4	1,893.7	2,002.4
Hem-bal	221.5	325.9	662.9	1,013.5
Cedar	61.5	95.3	283.3	359.9
Other	52.5	57.5	247.3	239.0
	644.2	990.1	3,087.2	3,614.8
Production Volume				
Logs (thousand m ³)				
Public tenures	76.3	175.1	711.2	761.0
Private timberlands	742.3	617.2	2,723.9	2,871.7
	818.6	792.3	3,435.1	3,632.7
Lumber (million fbm)	41.5	44.1	183.4	167.6
Earnings Before Interest, Taxes, Depreciation and Amortization (EBITDA)* (in millions of dollars)				
Net earnings	\$ 14.8	\$ 30.9	\$ 17.1	\$ 4.8
Add (deduct):				
Interest on Series A Subordinate Notes paid to unitholders	20.9	20.9	83.6	83.3
Interest on long-term debt	0.2	4.0	11.2	14.8
Interest on short-term debt	3.4	–	3.4	1.1
Income tax recovery	(13.4)	(31.6)	(38.2)	(41.6)
Depreciation, depletion and amortization	1.8	2.2	8.2	8.8
Amortization of deferred financing costs	0.2	0.1	0.6	0.7
EBITDA	\$ 27.9	\$ 26.5	\$ 85.9	\$ 71.9

* 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 owns in fee simple approximately 334,000 hectares or 825,000 acres of private timberland that, over the previous five years, have provided an annual average harvest of 2.594 million m³ of logs and have an approximate annual growth rate of 8.0 m³ per hectare per year on the productive land base. These timberlands are located on Vancouver Island and the majority of the land base supports the growth of Douglas fir, a premium tree species sought after for structural purposes. TimberWest runs fully-contracted harvesting operations. With almost 80% of the Company's annual private land logging now being done in second-growth stands, TimberWest leads the Coastal industry in growing and harvesting of second-growth timber.

The Company's independent auditor, KPMG Performance Registrar Inc., periodically certifies that the forest management practices on the Company's private timberland continue to meet all Sustainable Forestry Initiative (SFI[®]) requirements. SFI requirements specify that forest harvesting is integrated with environmental and conservation goals for soil, wildlife, water quality protection, conservation of biodiversity, protection of special sites and aesthetics in a manner that ensures a sustainable harvest over the long-term.

TimberWest also owns renewable Crown harvest rights to 0.7 million m³ of logs per year and operates a sawmill located near Campbell River, BC.

In addition, approximately 38,000 hectares or 94,000 acres 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 report are forward-looking statements that involve risks and uncertainties. TimberWest's actual results could differ materially from those expressed or implied by such forward-looking statements. Factors that could cause or contribute to such differences include, but are not limited to, general economic conditions, variations in TimberWest's product prices and changes in commodity prices generally, changes in market conditions for TimberWest's forest products, changes in real estate market conditions in the areas where TimberWest's higher use properties are located, 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".

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