



TIMBERWEST FOREST CORP.

FIRST QUARTER INTERIM REPORT
FOR THE THREE MONTHS ENDED MARCH 31, 2011

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TimberWest Forest Corp.

TO OUR UNITHOLDERS

Overview

We are very pleased to report ongoing improvements in the profitability of our business as a result of further market penetration into Asia. Total log sales volumes were up 30% and average sales realizations increased 15% over the first quarter of 2010. These higher volumes and prices, combined with lower unit costs of production, produced much stronger cash flows for the quarter. EBITDA in Q1, 2011 is \$16.2 million, an increase of \$12.8 million over Q1, 2010. Distributable Cash for the quarter is \$ 9.1 million, a \$12.0 million improvement over the Distributable Cash loss of \$2.9 million in Q1, 2010.

During the quarter we augmented our private timberland holdings on Vancouver Island with the acquisition of 7,678 hectares (18,973 acres) of private land from Western Forest Products Inc. for \$22.4 million. These lands are largely adjacent to our existing operation and we believe the acquisition is very accretive to unitholder value. Also, given the ongoing improvements in Asian log markets, we believe this acquisition was particularly well timed. We have made excellent progress integrating these lands into our operation with road building and timber harvesting activities well underway in the second quarter.

Net debt at the end of the first quarter is \$114.6 million. While this is \$11.6 million higher than the \$103.0 million at year end 2010, this incremental debt, combined with cash from operations, funded the \$22.4 million Western acquisition.

Like all Canadian public companies, this is our first quarter reporting under International Financial Reporting Standards (IFRS). The adoption of these standards has no material impact on TimberWest's cash flows, but as noted last year, the new standards impact on our balance sheet values as both our private timber holdings and our higher and better use real estate properties are now fair market valued at each reporting date. Based on improvements in both timber and real estate markets, these assets increased \$33.6 million in value since the inaugural January 1, 2010 valuation.

Timberland Operational Results

Our sales volume of 891,785 m³ for the quarter was our highest quarterly sales volume since the second quarter of 2007 and our exports into Asia of 534,712 m³, driven primarily by a sharp increase in demand from China and Korea, set a new quarterly record for TimberWest.

Asian Sales Volumes

Log volumes into China in the first quarter of 2011 were 138,249 m³. This is our highest quarterly volume ever sold to China and it represents a 37% increase over the volume sold in Q4 2010 and a 50% increase over the amount sold in Q1 2010.

The Company sold 113,949 m³ of logs to Korea in the first quarter, also a record for sales into that country. This represents a 107% increase over Korean sales volumes in Q4 2010 and a 33% improvement over Q1 2010 levels.

With Chinese demand for fibre creating increasingly tight competition for global supply, Korean buyers have had to offset supply shortages from their traditional supply sources with imports from North America. Given the Company's geographic location, TimberWest is well positioned to take advantage of the competitive demand dynamic in these key markets.

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We have adjusted our harvest plans upwards to capture value from surging demand in China and Korea and during the first quarter the Company harvested 727,300 m³ on its private and public lands.

With higher rates of harvest, per unit costs of production have declined. First quarter production costs were \$60 per m³, a \$4 per m³ improvement over Q4 2010 and a \$2 per m³ reduction from Q1 2010.

North American Sales Volumes

In contrast to Asia, our exports to the U.S. market remain at historically low levels. Based on current macro-economic data, the U.S. housing market does not appear poised for a substantive recovery in 2011. Accordingly, we will continue to redirect volumes to higher priced Asian markets. In the first quarter of 2011, volumes sold to the U.S. were 36,902 m³; this comprised only 4% of our sales mix.

In Canada, demand for our products remained relatively constant. Domestic sales volumes ended the first quarter at 320,171 m³, down slightly from the Q4 2010 volume of 347,508 m³ but up over the Q1 2010 volume of 302,619 m³. With coastal mills increasing their operating rates in response to the export markets, we anticipate rising demand for the balance of 2011.

As a Canadian exporter, the strength of the Canadian dollar has typically had a negative impact on our operating margins. Fortunately for TimberWest, given the strong demand for our product at this time, we have been able to mitigate the foreign exchange impact by increasing our U.S. denominated sales prices. Canadian denominated sales realizations in the quarter averaged \$83 per m³, an improvement over both Q1 and Q4 of 2010.

Safety performance during the first quarter of 2011 was comparable to that achieved for the year 2010. The Company operated with a Medical Incident Rate (MIR) of 0.69 in Q1, 2011 compared to 0.68 for the calendar year 2010. Work continues with contractors to further reduce this MIR and the Company is pleased to report a MIR of 0 during the month of April, 2011.

Couverdon

Real estate registered no sales during the quarter, which is a typical seasonal pattern for our HBU portfolio. That said, more than \$6 million in non-core HBU land sales are under contract for closing in the second quarter. In addition to marketing our non-core lands during the quarter, we continued to work on unlocking the value of the Company's core development nodes by pursuing multi-year planning and rezoning programs with communities.

Emerging Revenues

We continue to progress our carbon sequestering, biomass power and wind generation projects.

At the end of 2010 we signed a term sheet with Pacific Carbon Trust (PCT) under which we will sell carbon offsets in each of the upcoming three years. We have now completed our Project Description Document and have engaged independent third parties to validate and verify the process. Project completion and the sale of carbon offsets are expected to commence mid-year, 2011.

As disclosed in our previous unitholder letter, TimberWest formed a strategic partnership with Boralex Inc and Pacific BioEnergy Corp last year to respond to a BC Hydro power call to build a potential biomass power facility in Campbell River that would be fuelled by woody biomass sourced from unutilized harvest and mill residues from central and northern Vancouver Island. The proposal submitted to BC Hydro was selected as one of Hydro's Preferred Proponents and the partnership has since provided Hydro with a detailed Energy Purchase Agreement proposal that is conditional on securing long term fuel supply contracts from forest companies operating on the

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Island as well as project financing and other items. The partnership continues to work on removing bid conditions and is awaiting a response from BC Hydro on its proposal.

With respect to wind power generation, we continue to measure our wind profile and collect data and the results to date look promising. The next step in this project will be to enter into a joint venture agreement with an operating and development company with expertise in this industry. We anticipate doing so mid-year, 2011.

Outlook

This quarter's results highlight the importance of geography in relation to financial performance. Situated where we are in the Pacific Rim, we have the flexibility to divert sales away from the U.S. west coast to more profitable Asian markets. In doing so, we have optimized sales returns and returned to profitability despite the strengthening Canadian dollar.

In the near term, we see our profitability continuing to improve as we achieve higher sales realizations in Asia. In the long term, the eventual rebound in U.S. housing and the supply constraints created as a result of the Mountain Pine Beetle infestation and reduced Russian timber shipments, the fibre deficit is expected to become a global phenomenon. This will, in turn, increase demand for our timber and result in further improvements in our profitability. Until that time comes, we will continue to focus on extracting the highest margins possible by being vigilant on costs and capitalizing on the emerging revenues from our land base.

On March 11, 2011 the severe earthquake and resulting tsunami that occurred in the northern portion of Honshu Island in Japan, caused massive loss of life and property destruction. While the impact of the earthquake and tsunami was minimal on the Japanese sawmilling industry, approximately 30% of Japan's softwood plywood manufacturing capacity was severely damaged, a key component of TimberWest's business in Japan. As the Japanese plywood industry was operating at less than full capacity, a significant portion of the lost capacity has been offset by higher utilization rates at mills unaffected by the tsunami. Since March 11, TimberWest's volumes to Japan have been steady and while housing starts for the remainder of the year will not likely reflect reconstruction efforts from this tragic event, the demand for wood products in 2012 and beyond will increase as this region rebuilds. It is estimated that over 100,000 homes were completely or partially destroyed.

Proposed Sale Transaction

On April 11, 2011, TimberWest announced that it has entered into a definitive agreement under which two leading Canadian pension funds, British Columbia Investment Management Corporation ("bcIMC") and the Public Sector Pension Investment Board ("PSP Investments"), have agreed to acquire TimberWest for \$1.03 billion in cash, including assumed debt.

The aggregate consideration payable in respect of the stapled units represented a purchase price of \$6.48 for each stapled unit outstanding when the transaction was announced, a premium of approximately 25% over the 20-day volume-weighted average price of the stapled units on the Toronto Stock Exchange for the period ended April 8, 2011 (the last trading day before the transaction was announced). This represents a purchase price of \$6.16 per stapled unit after taking into account the issuance by the Company on April 15, 2011 of approximately 4.7 million stapled units to existing unitholders on a pro rata basis as payment-in-kind of deferred distributions on the stapled units.

In determining to approve the transaction and recommend that unitholders approve it at the Company's upcoming annual general and special meeting to be held on June 14, 2011 (the "Special Meeting"), the Company's board of directors considered a number of factors, including the recommendation of a special committee of independent directors formed to consider the transaction, fairness opinions delivered by BMO Nesbitt Burns Inc. ("BMO") and

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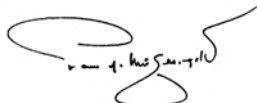
UBS Securities Canada Inc. (“UBS”), an independent valuation undertaken by UBS, and other factors described in the management information circular that has been mailed to unitholders in connection with Special Meeting (the “Information Circular”).

In addition, under the terms of its agreement with bcIMC and PSPIB, TimberWest has a “go-shop” period until June 9, 2011 during which it is permitted to solicit a superior proposal. Following the public announcement of the transaction, the Company initiated this “go-shop” process, with BMO contacting 31 prospective purchasers, of whom eight have expressed interest and five have entered into a confidentiality and standstill agreement with the Company and have been provided access to the Company’s electronic data room. There can be no assurance that the Company will be successful in soliciting a superior proposal during its go-shop process or that, if made, any superior proposal will be completed upon its terms and conditions or at all. In the absence of a superior proposal, the transaction will proceed by way of a statutory plan of arrangement and will be subject to court approval and approval by 66 2/3% of the votes cast by unitholders at the Special Meeting, and other customary closing conditions, including Competition Act approval.

Further details regarding the transaction and the Special Meeting are contained in the Information Circular, which has been mailed to unitholders and is available at www.timberwest.com and under the Company’s profile at www.sedar.com. I urge unitholders to read the Information Circular carefully and to ensure that their vote is counted in connection with this very important event in the Company’s history.

In closing, I would like to thank our unitholders, customers, suppliers and employees for their loyalty and support.

On behalf of the Board of Directors,



Paul McElligott
President and Chief Executive Officer
Vancouver, British Columbia
May 20, 2011

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MANAGEMENT'S DISCUSSION & ANALYSIS

For the three months ended March 31, 2011 and 2010

Management's Discussion and Analysis supplements, but does not form part of, the unaudited condensed consolidated interim financial statements of TimberWest Forest Corp. ("TimberWest" or the "Company") and the notes thereto for the first quarter of 2011 ("first quarter" or "Q1"). This discussion and analysis provides an overview of significant developments that have affected TimberWest's performance during the first quarter of 2011 relative to the first quarter of 2010, and that have affected the Company's financial position as at March 31, 2011, relative to December 31, 2010.

Factors that could affect future operations are also discussed. These factors may be affected by known and unknown risks and uncertainties that may cause actual future results of the Company to be materially different than those expressed or implied in this discussion. These risks and uncertainties are described herein and in the Management's Discussion and Analysis contained in the Company's 2010 Annual Report.

TimberWest's unaudited condensed consolidated interim financial statements and the accompanying notes included within this interim report include the accounts of TimberWest Forest Corp. and its subsidiaries. The unaudited condensed consolidated interim financial statements and the accompanying notes are prepared in accordance with International Financial Reporting Standards ("IFRS") applicable to the preparation of interim financial statements, including IAS 34, *Interim Financial Reporting*, and IFRS 1, *First-Time Adoption of IFRS* and are expressed in Canadian dollars. For comparative purposes all financial statement amounts related to the three month period ended March 31, 2010 and the year ended December 31, 2010 have been restated in accordance with IFRS.

Throughout this discussion and analysis reference is made to distributable cash, earnings available for distribution, and earnings before interest, tax, depreciation and amortization ("EBITDA"). Distributable cash, earnings available for distribution, and EBITDA are considered key measures by TimberWest in evaluating the Company's operating performance and the level of distributions payable on its Stapled Units held by unitholders. Distributable cash, earnings available for distribution, and EBITDA are measures that do not have a standardized meaning prescribed by IFRS and may not be comparable to similar measures presented by other companies. Reconciliations of net earnings (loss) and net cash from operating activities, as determined in accordance with IFRS, and earnings available for distribution, distributable cash and EBITDA are provided in this Management's Discussion and Analysis.

This Management's Discussion and Analysis has been prepared based on information available as at May 20, 2011.

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

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, variations in harvest levels, changes in log transportation costs, actions of competitors, interest rate and foreign currency fluctuations, regulatory, harvesting fee and trade policy changes and other actions by governmental authorities including real estate zoning approvals, the ability to implement business strategies and pursue business opportunities, labour relations, weather conditions, forest fires, insect infestation, disease and other natural phenomena and other risks and uncertainties described in TimberWest's public filings with securities regulatory authorities.

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1. Financial Highlights

Selected financial information

	Three months ended March 31	
(in millions of dollars except where otherwise noted)	2011	2010
Revenue	\$ 85.0	\$ 58.7
Operating earnings	14.0	4.7
Operating earnings - % of sales	16%	8%
Net earnings (loss)	(7.1)	(22.7)
EBITDA	16.2	3.4
Distributable cash	9.1	(2.9)
Per Stapled Units – basic and diluted (in dollars)		
Net earnings (loss)	\$ (0.08)	\$ (0.29)
EBITDA	0.18	0.04
Distributable cash	0.10	(0.04)
Revenue by operating segment		
Timberlands	\$ 85.0	\$ 57.7
Real estate	-	1.0
Stapled Units (thousands)		
At period-end	91,628	77,938
Basic weighted average	91,491	77,795
Diluted weighted average	92,029	78,386

Reconciliation of net (loss) to EBITDA

	Three months ended March 31	
(in millions of dollars)	2011	2010
Net earnings (loss)	\$ (7.1)	\$ (22.7)
Add (deduct):		
Interest on Series A Subordinate Notes owned by unitholders	4.0	3.4
Interest on convertible debentures	3.3	3.5
Interest on revolving credit facility	2.1	2.6
Income tax recovery	(1.2)	(1.6)
Depreciation and depletion	1.4	1.4
Amortization of deferred financing costs	0.7	1.0
Unwind of discount on provisions	0.2	0.2
Change in fair value:		
Biological assets	-	-
Investment property	-	-
Financial instruments held for trading	10.0	16.7
Stapled Unit option plan	1.3	1.1
Provisions and inventory	(0.5)	-
Accretion on Series A Subordinate Notes	2.0	1.6
Other non-cash items	-	(3.8)
EBITDA	\$ 16.2	\$ 3.4

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2. Distributable Cash

Reconciliation of net earnings (loss) to distributable cash

	Three months ended March 31	
(in millions of dollars)	2011	2010
Net earnings (loss)	\$ (7.1)	\$ (22.7)
Interest on Series A Subordinate Notes owned by unitholders	4.0	3.4
Earnings (loss) available for distribution	(3.1)	(19.3)
Accretion on Series A Subordinate Notes	2.0	1.6
Change in fair value:		
Biological assets	-	-
Investment property	-	-
Financial instruments held for trading	10.0	16.7
Deferred income tax recovery	(1.2)	(1.1)
Earnings (loss) available for distribution before accretion, changes in fair value and provision for deferred income taxes	7.7	(2.1)
Add (deduct):		
Depreciation, depletion and amortization	2.1	2.4
Additions to operating capital assets	(0.9)	(0.5)
Financing transaction costs	(0.5)	-
Other non-cash items	0.7	(2.7)
Distributable cash	\$ 9.1	\$ (2.9)

Calculation of distributable cash per Stapled Unit

	Three months ended March 31	
Per Stapled Units – basic and diluted (in dollars)	2011	2010
Earnings (loss) available for distribution before accretion, changes in fair value and provision for deferred income taxes	\$ 0.08	\$ (0.03)
Distributable cash	0.10	(0.04)
Cash distributions paid	\$ -	\$ -

Reconciliation of operating cash flow from operations to distributable cash

	Three months ended March 31	
(in millions of dollars)	2011	2010
Net cash from (used in) operating activities	\$ 12.2	\$ 0.3
Add (deduct):		
Change in non-cash working capital	(0.9)	2.4
Interest on Series A Subordinate Notes owned by unitholders	4.0	3.4
Proceeds from sale of investment property	-	-
Additions to operating capital assets	(0.9)	(0.5)
Financing transaction costs	(0.5)	-
Change in interest payable	0.4	-
Change in income taxes payable	-	0.5
Change in deferred distribution payable	(0.6)	(3.4)
Convertible debenture interest paid in kind	-	(3.5)
Series A Subordinate Note interest paid in kind	(3.5)	-
Other non-cash items	(1.1)	(2.1)
	(3.1)	(3.2)
Distributable cash	\$ 9.1	\$ (2.9)

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Distributable cash includes consolidated net earnings (loss), plus interest expensed on Series A Subordinate Notes owned by unitholders, plus non-cash items including income taxes, accretion expense and changes in fair value of biological assets, investment property and financial instruments held for trading, plus depreciation, depletion and amortization, plus proceeds from the sale of property, plant and equipment and investment property net of their gain (loss) on sale, less additions to operating capital assets, less financing costs and, from time to time, adjustments for other items deemed appropriate by the Board of Directors.

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

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

(in millions of dollars)	2011	2010	2009	2008	2007
First quarter	\$ 9.1	\$ (2.9)	\$ (15.3)	\$ (3.9)	\$ 26.9
Second quarter		4.0	(5.4)	(3.2)	13.6
Third quarter		(4.7)	(3.8)	(6.3)	(5.6)
Fourth quarter		(3.2)	(10.2)	(11.4)	55.4
	\$ 9.1	\$ (6.8)	\$ (34.7)	\$ (24.8)	\$ 90.3
Per Stapled Unit ¹ (in dollars)					
First quarter	\$ 0.10	\$ (0.04)	\$ (0.20)	\$ (0.05)	\$ 0.35
Second quarter		0.05	(0.07)	(0.04)	0.17
Third quarter		(0.05)	(0.05)	(0.08)	(0.07)
Fourth quarter		(0.04)	(0.13)	(0.15)	0.71
	\$ 0.10	\$ (0.08)	\$ (0.45)	\$ (0.32)	\$ 1.16

1 Per Stapled Unit amounts by quarter do not necessarily add to the total of the year and year-to-date due to changes in the weighted average number of Stapled Units outstanding during the year.

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3. Highlights and Significant Transactions

(a) Agreement to be acquired by bcIMC and PSP Investments

On April 11, 2011, the Company entered into a definitive agreement under which two leading Canadian pension funds, British Columbia Investment Management Corporation (“bcIMC”) and the Public Sector Pension Investment Board (“PSP Investments”), have agreed to acquire TimberWest for \$1.03 billion in cash, including assumed debt, which represents a purchase price of \$6.16 for each Stapled Unit outstanding as at May 20, 2011.

The transaction will proceed by way of a statutory plan of arrangement and will be subject to court approval and approval by 66 2/3% of the votes cast by unitholders at a special meeting scheduled for June 14, 2011 to consider the transaction. The transaction is subject to customary closing conditions, including regulatory approvals. In the absence of a superior proposal, the transaction is expected to close by the end of June 2011.

(b) Strategic land acquisition

On February 9, 2011, the Company acquired 7,678 hectares of private timberland located adjacent to the Company’s existing private timberlands on southern Vancouver Island from Western Forest Products Inc. The acquisition cost was \$22.4 million and was funded through the Company’s existing credit facility.

(c) Distributions on the Stapled Units

As announced in November, 2008, the January 15, 2009 distribution payment was deferred for 27 months pursuant to the terms of the Note Indenture and all 2010 and 2009 distribution payments, payable at 2%, were deferred for 18 months. The Company has set the variable interest rate at 2% for 2011 and intends to defer distribution payments for the foreseeable future.

The deferred distribution originally payable on July 15, 2009 but deferred for 18 months was paid in kind on January 17, 2011 by the issuance of 785,854 additional Stapled Units. Subsequent to the period ended March 31, 2011, the deferred distribution originally payable on January 15, 2009 but deferred for 27 months, and the deferred distribution originally payable on October 15, 2009 but deferred for 18 months, were paid in kind by issuance of 4,724,114 additional Stapled Units to unitholders on April 15, 2011.

Concurrent with the April 15, 2011 payment, the cumulative effect of the deferred interest payments paid by the issuance of Stapled Units resulted in a conversion price adjustment from approximately \$3.44 to approximately \$3.27 on the convertible debentures under the conversion price privilege.

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4. Operating Highlights

(a) Timberlands

	Three months ended March 31	
	2011	2010
Log sales (in millions of dollars)		
Domestic	\$ 20.4	\$ 17.1
Export – Asia	51.8	31.7
Export – USA	2.2	0.6
	74.4	49.4
Freight and other		8.3
Total timberland sales	\$ 85.0	\$ 57.7
Log sales realizations (\$/m ³) - CAD		
Domestic	\$ 64	\$ 57
Export – Asia	96	86
Export – USA	61	62
Total log sales realizations - CAD	\$ 83	\$ 72
Log sales realizations (\$/m ³) – USD		
Domestic	\$ 65	\$ 56
Export – Asia	98	82
Export – USA	62	59
Total log sales realizations - USD	\$ 84	\$ 70
Log sales volume (thousand m ³)		
Domestic	320.2	302.6
Export – Asia	534.7	370.7
Export – USA	36.9	10.3
Total log sales volume	891.8	683.6
Log sales mix (thousand m ³)		
Fir	499.0	396.3
Hembal	304.5	227.8
Cedar	40.3	28.8
Other	48.0	30.7
Total log sales mix	891.8	683.6
Log production volume (thousand m ³)		
Public tenures	221.7	168.7
Private timberlands	505.6	415.5
Total production volume	727.3	584.2
Log production costs ¹ (\$/m ³)	\$ 60	\$ 62
Timberland cost of sales ¹ (\$/m ³)	61	64
Timberland operating margin ¹ (% of log sales)	25%	11%

1 Excludes any impact of changes in fair value under IFRS on total costs.

Log sales revenues for the three months ended March 31, 2011 increased by 50% from the same quarter last year due to a 30% increase in the sales volumes and an \$11 per m³ increase in average log sales realizations.

Log sales volumes increased in all markets for the quarter compared to the same period in 2010. Volumes to Asia increased by 44% from the same periods in 2010. Strong pricing in Asia helped to offset a 6% increase in the average value of the Canadian dollar during the first quarter of 2011 compared to the same quarter in 2010.

Timberland sales include other sales of \$10.6 million for the three months ended March 31, 2011, compared to \$8.3 million for the same period in 2010. These sales in Q1, 2011 include \$9.7 million, of shipping services to Asian customers. These include ocean freight and ship loading as a result of vessels TimberWest chartered to ship to

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Asian markets (Q1, 2010 - \$6.7 million). These other sales are offset by ocean freight and ship loading costs reported in cost of sales and result in no margin.

Unit logging production costs for the three months ended March 31, 2011 improved by \$2 per m³ over Q1, 2010. Lower unit costs are a result of higher production volumes over fixed costs as well as competitive contract rates on public and private land operations.

(b) Real estate

(in millions of dollars except where otherwise noted)	Three months ended March 31	
	2011	2010
Sales	\$ -	\$ 1.0
Price per acre (\$/acre)	-	-

The Company's real estate division, Couverdon, sells higher and better use non-core landholdings, pursues entitlements on core development properties and markets these properties.

Deferred costs related to entitlement and planning activities were \$0.6 million for the three months ended March 31, 2011 (Q1, 2010 - \$0.4 million).

Real estate sales generally vary from year-to-year and quarter-to-quarter reflecting the variable nature and timing of real estate sales activity.

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5. Financial condition

The following table highlights the significant changes between the unaudited condensed consolidated statements of financial position as at March 31, 2011 and December 31, 2010:

(in millions of dollars)	March 31, 2011	December 31, 2010	Increase / (decrease)	
Cash and cash equivalents	4.4	3.5	0.9	The increase in cash is primarily the result of timing of cash receipts at period end. Refer to section "Liquidity and Capital Resources" for greater detail.
Current assets, excluding cash and cash equivalents	58.3	51.9	6.4	The increase is due to an increase in trade and other receivables, offset by a decrease in prepaid expenses and other current assets.
Biological assets	767.5	747.1	20.4	Biological assets represent the Company's standing timber on its private timberlands. These assets are measured at fair value less costs to sell. The change in biological assets over December 31, 2010 is due to the private land and standing timber acquisition for a total of \$22.4 million, of which \$20.4 was allocated to biological assets with the remainder allocated to property, plant and equipment.
Investment property	166.6	166.0	0.6	Investment property consists of the Company's higher and better use lands. These assets are measured at fair value. The increase in the period relates to costs incurred to ready specific properties for sale or development.
Property, plant and equipment	118.3	117.2	1.1	The increase in property, plant and equipment relates to additions of \$2.3 million offset by depreciation in the period.
Intangible assets	14.8	15.0	(0.2)	Intangible assets relate to the Company's crown timber tenures and decreased as a result of depletion charged against the asset during the period.
Other assets, including deferred tax assets	10.8	12.3	(1.5)	The decrease in other assets is due to the amortization of the capitalized financing costs a decrease in the fair value of the Company's financial instruments and a decrease in the deferred tax asset.
Current liabilities, excluding revolving credit facility	65.1	57.6	7.5	The increase is primarily due to an increase in accounts payable and accrued liabilities.
Revolving credit facility	119.0	106.5	12.5	The revolving credit facility increased due to the private land and standing timber acquisition for a total of \$22.4 million completed in the quarter, offset by positive operating earnings in the quarter. The balance outstanding at March 31, 2011 has been reclassified to current on the Statement of Financial Position as the balance comes due on February 11, 2012.
Convertible debentures	257.4	248.1	9.3	Convertible debentures are measured at fair value. The increase in the convertible debenture is due to the change in fair value over December 31, 2010. The face value of the convertible debentures at March 31, 2011 is \$160.3 million.
Other long-term liabilities	207.1	207.5	(0.4)	The decrease is due to a decrease in deferred tax liabilities, offset by an increase in provisions and an increase in the Stapled Unit option plan liability.
Series A Subordinate Notes owned by unitholders	320.6	315.1	5.5	The increase is due to the recognition of accretion and Stapled Units issued during the period.
Unitholders' Equity	171.5	178.2	(6.7)	The decrease is primarily due to the net comprehensive loss for the period.

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6. Liquidity and capital resources

Selected financial information

(in millions of dollars except where otherwise noted)	Three months ended March 31	
	2011	2010
Cash provided by (used in):		
Operating activities	12.2	0.3
Financing activities	12.0	2.5
Investing activities	(23.3)	(0.6)
Increase (decrease) in cash and cash equivalents	0.9	2.2
Consolidated debt-to-total capitalization ratio ¹	14:86	13:87

1 The consolidated debt-to-total capitalization ratio does not have a standardized meaning prescribed by IFRS and may not be comparable to similar measures presented by other companies. Debt includes the senior debt held by a syndicate of banks. Management believes that the presentation of these measures will enhance an investor's understanding of the Company's operating performance.

The Company's primary cash requirements as the industry continues to recover are to fund operations, capital expenditures and interest payments on the Company's debt and equity instruments. The Company continues to benefit from steps taken in the past few years to reduce cash outlays, improving export log markets, changing to a variable interest rate on the Series A Subordinate Notes and deferring interest payments on these notes. The Company will determine on a quarterly basis as to whether deferred distributions will be paid in cash or by the issuance of additional Stapled Units.

Operating

The increase in cash provided by operating activities for the three months ended March 31, 2011, compared to the same period last year is due to improved net earnings before non-cash expenses.

No distributions were paid to unitholders in cash in Q1, 2011 or Q1, 2010. During Q1, 2011 the deferred distributions originally payable on July 15, 2009 with a face value of \$3.5 million came due on January 17, 2011 and were paid in kind through the issuance of 785,854 Stapled Units (Q1, 2010 – no deferred distributions were due).

The Company paid cash interest totaling \$5.8 million during Q1, 2011, of which \$2.2 million was due on the revolving credit facility, and \$3.6 million was due on the convertible debentures. This compares to interest paid with cash of \$2.7 million during Q1, 2010, due on the revolving credit facility. The interest due on the convertible debentures in Q1, 2010 of \$3.5 million was paid in kind, by issuing additional convertible debentures with a face value of \$3.5 million and a fair value of \$4.6 million.

Financing Activities

During Q1, 2011, the Company increased its borrowings on its revolving credit facility by \$12.5 million, primarily to fund the acquisition of private timberlands of \$22.4 million. For the three months ended March 31, 2010, the Company increased its revolving credit facility by \$2.0 million and received proceeds from the exercise of 148,181 Stapled Units option of \$0.5 million. As at May 20, 2011 the Company had 96,432,910 issued and outstanding Stapled Units and 2,675,385 granted and outstanding Stapled Unit option awards.

Cash and cash equivalents at the end of Q1, 2011 were \$4.4 million compared to \$3.5 million at December 31, 2010. The Company's consolidated debt-to-total capitalization ratio as at March 31, 2011 was 14:86 compared to 13:87 at December 31, 2010.

Investing Activities

Cash used in investing activities was \$23.3 million in Q1, 2011 compared to \$0.6 million in Q1, 2010. This increase was due to the private land and standing timber acquisition for \$22.4 million completed in Q1, 2011 and increased spending on property, plant and equipment and investment property. There were no proceeds from the sale of assets in either Q1, 2011 or Q1, 2010.

TimberWest Forest Corp.

Capital resources

The Company's capital resources at March 31, 2011 include amounts available under the revolving credit facility and the convertible debentures. This source of borrowing, coupled with cash from operations, is expected to be sufficient to support the Company's working capital requirements and to finance planned capital expenditures during 2011. Credit ratings for the Company were confirmed by Dominion Bond Rating service at BBB in 2010.

Available capital resources and total liquidity at period-end is summarized in the following table:

(in millions of dollars)	2011 Q1	2010 Q4	2010 Q3	2010 Q2	2010 Q1
Borrowing base					
Revolving credit facility (due February 11, 2012)	\$ 230.0	\$ 220.0	\$ 220.0	\$ 220.0	\$ 220.0
Less Letters of credit	14.9	14.5	14.5	14.5	16.4
Amount drawn, net	119.0	106.5	92.7	88.7	154.6
Available to be drawn	96.1	99.0	112.8	116.8	49.0
Cash and cash equivalents on hand	4.4	3.5	3.6	6.0	4.0
Total liquidity	\$ 100.5	\$ 102.5	\$ 116.4	\$ 122.8	\$ 53.0

As of March 31, 2011, the Company had \$100.5 million of available liquidity, comprised of \$4.4 million of cash on hand and \$96.1 million available to be drawn on its \$230.0 million revolving credit facility. Compared to December 31, 2010 the Company's total liquidity decreased by \$2.0 million, primarily due to the \$22.4 million acquisition of private timberlands in the quarter, offset by a \$10.0 million increase to the available borrowing base and improved timberland operating earnings.

Debt

At March 31, 2011, the total debt calculated for financial reporting purposes was \$376.4 million. The following table outlines the changes in the Company's long-term debt for the quarter ended March 31, 2011:

(in millions of dollars)	December 31, 2010	Net increase (decrease)	March 31, 2011
Secured revolving credit facility of \$230.0 million due February 11, 2012 with interest based on Canadian or U.S. Prime rates + 5%, or Canadian BA rates + 6%	\$ 106.5	\$ 12.5	\$ 119.0
Convertible debentures with a face value of \$160.3 million as of March 31, 2011, due February 11, 2014	248.1	9.3 ¹	257.4
Total debt	\$ 354.6	\$ 21.8	\$ 376.4

¹ The convertible debentures are designated as held-for-trading for accounting purposes and as such are valued at fair value. The increase in Q1, 2011 over December 31, 2010 is the result of a fair value adjustment of \$9.3 million.

Refer to the Company's unaudited condensed consolidated interim financial statements for the three months ended March 31, 2011, Note 14 for details related to covenant compliance. The Company is in compliance with its covenants as at March 31, 2011.

TimberWest Forest Corp.

7. Summary of Quarterly Information

The following table presents selected unaudited quarterly financial information for each of the Company's last eight quarters. This represents the first quarter for which the Company prepared its financial statements in accordance with IFRS. The data for the four quarters in 2010 have been restated to conform to IFRS, and the quarters prior to the IFRS transition date of January 1, 2010 are derived from the unaudited condensed consolidated interim financial statements as prepared in accordance with previous Canadian generally accepted accounting principles ("Canadian GAAP"). In the Company's opinion, the amounts include all normal recurring adjustments necessary for the fair presentation of such information. These financial results are not necessarily indicative of results for any future period and should not be relied upon to predict future performance.

The Company operates in a cyclical industry and it also experiences some seasonal fluctuations in quarterly results due to market conditions and weather-related factors having an effect on harvesting operations. Earnings in the second half of the year generally trend lower as the result of fire season shutdowns and increased costs of harvesting at higher elevations.

Unaudited (in millions of dollars except per common share and per Stapled Unit amounts)	2011		2010				2009		
	IFRS Q1	Q4	IFRS Q3	Q2	Q1	Previous Canadian GAAP Q4	Q3	Q2	
Revenue	\$ 85.0	\$ 62.6	\$ 65.9	\$ 80.9	\$ 58.7	\$ 44.4	\$ 37.5	\$ 38.0	
Operating earnings (loss) from continuing operations	\$ 14.0	\$ 4.9	\$ 3.2	\$ 9.9	\$ 4.7	\$ (3.1)	\$ (2.2)	\$ (4.6)	
Net earnings (loss) from continuing operations	\$ (7.1)	\$ (20.7)	\$ 2.0	\$ 17.6	\$ (22.7)	\$ 8.3	\$ (25.9)	\$ (30.2)	
Net earnings (loss) from discontinued operations	\$ -	\$ -	\$ -	\$ -	\$ -	\$ (0.1)	\$ (0.1)	\$ (0.1)	
Net earnings (loss)	\$ (7.1)	\$ (20.7)	\$ 2.0	\$ 17.6	\$ (22.7)	\$ 8.2	\$ (26.0)	\$ (30.3)	
Earnings (loss) from continuing operations available for distribution	\$ (3.1)	\$ (16.8)	\$ 5.9	\$ 21.6	\$ (19.3)	\$ 12.0	\$ (22.3)	\$ (26.7)	
Earnings (loss) from continuing operations available for distribution before accretion, changes in fair value and provision for deferred income tax expense (recovery)	\$ 7.7	\$ (2.0)	\$ (3.2)	\$ 3.2	\$ (2.1)	\$ (9.6)	\$ (8.3)	\$ (11.0)	
Distributable cash from continuing operations	\$ 9.1	\$ (3.2)	\$ (4.7)	\$ 4.0	\$ (2.9)	\$ (10.1)	\$ (3.7)	\$ (5.3)	
Distributable cash from discontinued operations	\$ -	\$ -	\$ -	\$ -	\$ -	\$ (0.1)	\$ (0.1)	\$ (0.1)	
Distributable cash	\$ 9.1	\$ (3.2)	\$ (4.7)	\$ 4.0	\$ (2.9)	\$ (10.2)	\$ (3.8)	\$ (5.4)	
Distributions paid ²	\$ 3.5	\$ 3.5	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	
Per common share¹ - basic									
Net earnings (loss) from continuing operations	\$ (0.08)	\$ (0.23)	\$ 0.02	\$ 0.21	\$ (0.29)	\$ 0.11	\$ (0.33)	\$ (0.39)	
Net earnings (loss) from discontinued operations	\$ -	\$ -	\$ -	\$ -	\$ -	\$ (0.01)	\$ -	\$ -	
Net earnings (loss)	\$ (0.08)	\$ (0.23)	\$ 0.02	\$ 0.21	\$ (0.29)	\$ 0.10	\$ (0.33)	\$ (0.39)	
Per common share¹ - diluted									
Net earnings (loss) from continuing operations	\$ (0.08)	\$ (0.23)	\$ 0.02	\$ 0.14	\$ (0.29)	\$ 0.07	\$ (0.33)	\$ (0.39)	
Net earnings (loss) from discontinued operations	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	
Net earnings (loss)	\$ (0.08)	\$ (0.23)	\$ 0.02	\$ 0.14	\$ (0.29)	\$ 0.07	\$ (0.33)	\$ (0.39)	
Per Stapled Unit¹ - basic									
Earnings (loss) available for distribution	\$ (0.03)	\$ (0.19)	\$ 0.07	\$ 0.26	\$ (0.25)	\$ 0.15	\$ (0.29)	\$ (0.34)	
Earnings (loss) available for distribution before accretion, changes in fair value and provision for deferred income tax expense (recovery)	\$ 0.08	\$ (0.02)	\$ (0.04)	\$ 0.04	\$ (0.03)	\$ (0.12)	\$ (0.11)	\$ (0.14)	
Distributable cash	\$ 0.10	\$ (0.04)	\$ (0.05)	\$ 0.05	\$ (0.04)	\$ (0.13)	\$ (0.05)	\$ (0.07)	
Distributions paid ²	\$ 0.04	\$ 0.04	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	
Per Stapled Unit¹ - diluted									
Earnings (loss) available for distribution	\$ (0.03)	\$ (0.18)	\$ 0.07	\$ 0.19	\$ (0.25)	\$ 0.15	\$ (0.29)	\$ (0.34)	
Earnings (loss) available for distribution before accretion, changes in fair value and provision for deferred income tax expense (recovery)	\$ 0.08	\$ (0.02)	\$ 0.00	\$ 0.05	\$ (0.03)	\$ (0.12)	\$ (0.11)	\$ (0.14)	
Distributable cash	\$ 0.10	\$ (0.04)	\$ (0.01)	\$ 0.06	\$ (0.04)	\$ (0.13)	\$ (0.05)	\$ (0.07)	
Distributions paid ²	\$ 0.04	\$ 0.04	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	

TimberWest Forest Corp.

- 1 Per common share and per Stapled Unit amounts presented for each quarter have been determined based on the weighted average number of common shares or weighted average number of Stapled Units outstanding during the quarter. Per common share and per Stapled Unit amounts by quarter do not necessarily add to the total of the year due to changes in the weighted average number of common shares and Stapled Units outstanding during the year.
- 2 Distributions paid in Q1, 2011 and Q4, 2010 were paid in kind by issuing 785,854 and 885,447 Stapled Units respectively, to unitholders on the record date.

8. Transition to International Financial Reporting Standards

Effective January 1, 2011, Canadian publically listed entities were required to prepare their financial statements in accordance with IFRS. Due to the requirement to present comparative financial information, the effective transition date for the Company is January 1, 2010. The three months ended March 31, 2011 is the Company's first reporting period under IFRS. Full disclosure of the Company's accounting policies in accordance with IFRS can be found in Note 3 to the unaudited condensed consolidated interim financial statements. The unaudited condensed consolidated interim financial statements also include reconciliations of the previously disclosed comparative periods financial statements prepared in accordance with Canadian GAAP to IFRS as set out in Note 4.

9. Future changes in accounting polices

The following new IFRS standard is not effective for the year ended December 31, 2011, and has not been applied in preparing these unaudited condensed consolidated interim financial statements:

IFRS 9 Financial Instruments

This standard will replace IAS 39 *Financial Instruments: Recognition and Measurement* and uses a single approach to determine whether a financial asset is measured at amortized cost or fair value, rather than a multiple rules approach under IAS 39. The new standard also requires a single impairment method to be used, replacing the multiple impairment methods in IAS 39. IFRS 9 is effective for years commencing on or after January 1, 2013. The Company has not yet determined the impact of IFRS 9 on its financial statements.

10. Disclosure controls and internal control over financial reporting

During the quarter ended March 31, 2011, there was no change in the Company's internal control over financial reporting that has materially affected, or is reasonably likely to materially affect the Company's internal control over financial reporting.

TimberWest Forest Corp.

CONDENSED CONSOLIDATED STATEMENTS OF COMPREHENSIVE EARNINGS (LOSS)

Unaudited (in millions of dollars, except per share amounts)	Note	Three months ended March 31	
		2011	2010
Revenue		\$ 85.0	\$ 58.7
Operating costs and expenses:			
Cost of sales		67.0	50.2
Selling and administrative expenses		4.0	3.7
		71.0	53.9
Change in fair value of biological assets	10	-	-
Change in fair value of investment property	11	-	-
Other income (expense)		-	(0.1)
Operating earnings (loss)		14.0	4.7
Interest expense:			
Series A Subordinate Notes owned by unitholders	20	6.0	5.0
Convertible debentures	15	3.3	3.5
Revolving credit facility	14	2.1	2.6
		11.4	11.1
Amortization of deferred financing costs	14	0.7	1.0
Change in fair value of financial instruments held for trading	13,15,21	10.0	16.7
Unwind of discount on provisions	16,19	0.2	0.2
Finance costs		22.3	29.0
Earnings (loss) before income tax		(8.3)	(24.3)
Income tax recovery	7	(1.2)	(1.6)
Net earnings (loss)		(7.1)	(22.7)
Other comprehensive earnings (loss)			
Defined benefit plan actuarial gains (losses)	17	-	(0.6)
Income tax recovery on defined benefit plan actuarial gains (losses)	7	-	0.2
Other comprehensive earnings (loss) for the period, net of income tax		-	(0.4)
Total comprehensive earnings (loss) for the period		\$ (7.1)	\$ (23.1)
Earnings (loss) per common share			
Basic and diluted earnings (loss) per common share	8	(0.08)	(0.29)

The accompanying notes are an integral part of these unaudited condensed consolidated interim financial statements.

TimberWest Forest Corp.

CONDENSED CONSOLIDATED STATEMENTS OF FINANCIAL POSITION

Unaudited (in millions of dollars)	Note	March 31 2011	December 31 2010	January 1 2010
Assets				
Current assets:				
Cash and cash equivalents		\$ 4.4	\$ 3.5	\$ 1.8
Trade and other receivables		15.3	6.2	5.8
Inventories	9	38.8	38.4	27.6
Prepaid expenses and other current assets		4.2	7.3	3.0
		62.7	55.4	38.2
Biological assets	10	767.5	747.1	726.1
Investment property	11	166.6	166.0	154.0
Property, plant and equipment	12	118.3	117.2	119.2
Intangible assets		14.8	15.0	15.4
Deferred tax assets		1.1	1.7	2.0
Other assets	13	9.7	10.6	12.0
Total assets		\$ 1,140.7	\$ 1,113.0	\$ 1,066.9
Liabilities and Unitholders' Equity				
Current liabilities:				
Accounts payable and accrued liabilities		\$ 24.5	\$ 17.6	\$ 20.6
Provisions	16	5.2	5.2	4.5
Deferred distribution payable	19	35.4	34.8	3.4
Revolving credit facility	14	119.0	-	-
		184.1	57.6	28.5
Revolving credit facility	14	-	106.5	152.6
Convertible debentures	15	257.4	248.1	207.8
Provisions	16	5.4	5.1	4.4
Employee future benefits	17	40.5	40.6	44.7
Stapled Unit option plan	18	4.2	3.0	2.2
Deferred distribution payable	19	11.9	11.9	30.9
Deferred tax liabilities		145.1	146.9	145.6
		648.6	619.7	616.7
Series A Subordinate Notes owned by unitholders	20	320.6	315.1	247.1
Total liabilities		969.2	934.8	863.8
Unitholders' equity				
Share capital	20	191.5	191.5	191.0
Contributed surplus		2.5	2.1	2.0
Retained earnings (deficit)		(22.5)	(15.4)	10.1
Total unitholders' equity		171.5	178.2	203.1
Total liabilities and unitholders' equity		\$ 1,140.7	\$ 1,113.0	\$ 1,066.9

Subsequent events (note 15,19, and 23)

The accompanying notes are an integral part of these unaudited condensed consolidated interim financial statements.

TimberWest Forest Corp.

CONDENSED CONSOLIDATED STATEMENTS OF CHANGES IN UNITHOLDERS' EQUITY

Unaudited (in millions of dollars)	Note	Share capital	Contributed Surplus	Retained earnings (deficit)	Total unitholders' equity
Balance at January 1, 2010		191.0	2.0	10.1	203.1
Net earnings (loss)		-	-	(22.7)	(22.7)
Defined benefit plan actuarial gains (losses), net of tax		-	-	(0.4)	(0.4)
Total comprehensive earnings (loss) for the period		-	-	(23.1)	(23.1)
Total transactions with unitholders of the Company recognized directly in unitholders' equity		-	-	-	-
Balance at March 31, 2010		191.0	2.0	(13.0)	180.0
Balance at January 1, 2011		191.5	2.1	(15.4)	178.2
Net earnings (loss)		-	-	(7.1)	(7.1)
Defined benefit plan actuarial gains (losses), net of tax		-	-	-	-
Total comprehensive earnings (loss) for the period		-	-	(7.1)	(7.1)
Stapled Unit based arrangements	18	-	0.4	-	0.4
Total transactions with unitholders of the Company, recognized directly in unitholders' equity		-	0.4	-	0.4
Balance at March 31, 2011		191.5	2.5	(22.5)	171.5

The accompanying notes are an integral part of these unaudited condensed consolidated interim financial statements.

TimberWest Forest Corp.

CONDENSED CONSOLIDATED STATEMENTS OF CASH FLOWS

Unaudited (in millions of dollars)	Three months ended March 31	
	2011	2010
Cash flows from operating activities:		
Net earnings (loss)	(7.1)	(22.7)
Adjustments for:		
Depreciation and depletion	1.4	1.4
Finance costs	22.3	29.0
Change in fair value of biological assets	-	-
Change in fair value of investment property	-	-
(Gain) loss on sale of property, plant and equipment	-	-
(Gain) loss on sale of biological assets	-	-
(Gain) loss on sale of investment property	-	-
Income tax recovery	(1.2)	(1.6)
Other non-cash items	1.7	(0.7)
	17.1	5.4
Change in trade and other receivables	(9.1)	(1.3)
Change in inventories	(0.4)	(2.0)
Change in prepaid expenses and other current assets	3.1	(0.3)
Change in accounts payables and accrued liabilities	7.3	1.3
Change in provisions	-	(0.1)
Cash generated from operating activities	18.0	3.0
Interest paid	(5.8)	(2.7)
Income tax paid	-	-
Net cash from (used in) operating activities	12.2	0.3
Cash flows from financing activities:		
Proceeds from issuance of Stapled Units:		
Series A Subordinate Notes	-	0.5
Share capital	-	-
Proceeds from / (repayment of) revolving credit facility	12.5	2.0
Payment of transaction costs	(0.5)	-
Net cash from (used in) financing activities	12.0	2.5
Cash flows from investing activities:		
Proceeds from sale of property, plant and equipment	-	-
Proceeds from sale of biological assets	-	-
Proceeds from sale of investment property	-	-
Additions to property, plant and equipment	(2.3)	(0.1)
Additions to biological assets	(20.4)	-
Additions to investment property	(0.6)	(0.4)
Additions to other assets	-	(0.1)
Net cash from (used in) investing activities	(23.3)	(0.6)
Net increase (decrease) in cash and cash equivalents	0.9	2.2
Cash and cash equivalents, beginning of period	3.5	1.8
Cash and cash equivalents, end of period	4.4	4.0

The accompanying notes are an integral part of these unaudited condensed consolidated interim financial statements.

TimberWest Forest Corp.

Notes to the Unaudited Condensed Consolidated Interim Financial Statements

For the three months ended March 31, 2011 & 2010

(in millions of dollars, except per Stapled Unit and per common share amounts)

1. Reporting entity

TimberWest Forest Corp. (the "Company") is domiciled in Canada and operates in the timber and land management business. These unaudited condensed consolidated interim financial statements ("interim financial statements") of the Company are as at and for the three months ended March 31, 2011 and comprise the Company and its subsidiaries (together referred to as the "Company").

The consolidated financial statements of the Company as at and for the year ended December 31, 2010, which were prepared under previous Canadian generally accepted accounting principles ("Canadian GAAP") are available on www.sedar.com.

2. Basis of preparation and statement of compliance

(a) Statement of compliance

The interim financial statements have been prepared in accordance with International Financial Reporting Standards ("IFRS") IAS 34 *Interim Financial Reporting*. These are the Company's first IFRS interim financial statements for part of the period covered by the first IFRS annual financial statements and IFRS 1 *First-time Adoption of IFRS* ("IFRS 1") has been applied. The interim financial statements do not include all of the information required for full annual financial statements.

An explanation of how the transition to IFRS has affected the reported financial position, financial performance and cash flows of the Company is provided in note 4. This note includes reconciliations of equity and total comprehensive earnings for comparative periods and of equity at the date of transition under Canadian GAAP to those reported for those periods and at the date of transition under IFRS.

The interim financial statements were approved by the Board of Directors on May 20, 2011.

(b) Basis of measurement

The interim financial statements have been prepared on the historical cost basis except for the following material items in the statements of financial position:

- Derivative financial instruments that are measured at fair value;
- Financial instruments designated as held for trading and measured at fair value;
- Biological assets are measured at fair value less costs to sell;
- Investment property is measured at fair value;
- Liabilities for cash-settled share-based payment arrangements are measured at fair value; and,
- The employee future benefit liability is recognized as the net total of the plan assets, plus unrecognized past service cost, less the present value of the defined benefit obligation.

(c) Going concern

At March 31, 2011, the Company had total liquidity available of \$100.5 million, a decrease of \$2.0 million over December 31, 2010. Based on the Company's current liquidity position and forecasted cash requirements over fiscal 2011 and into 2012, the Company does not foresee any going concern issues in 2011 and into 2012.

The Company's revolving credit facility becomes due on February 11, 2012. The Company has been in discussions with its current lenders and other parties on replacement refinancing for this facility and the Company expects to complete the refinancing in fiscal 2011 prior to maturity.

TimberWest Forest Corp.

Notes to the Unaudited Condensed Consolidated Interim Financial Statements

For the three months ended March 31, 2011 & 2010

(in millions of dollars, except per Stapled Unit and per common share amounts)

2. Basis of presentation and statement of compliance (continued)

(e) Going concern (continued)

The Company's ability to continue as a going concern beyond fiscal 2011 will be dependent on the economic factors affecting the Company's core businesses – timberland operations and real estate. Although the Company is confident in its ability to renew or replace the revolving credit facility and of the future profitability of its operations and assets, the Company recognizes that the Company's results will be affected by economic, competitive and other factors, many of which are beyond the Company's control.

Subsequent to March 31, 2011, the Company has entered into an agreement with two leading Canadian pension funds to acquire the Company (note 23).

(d) Functional and presentation currency

These interim financial statements are presented in Canadian dollars, which is the Company's functional currency. All financial information presented in Canadian dollars has been rounded to the nearest million, except for per common share and per Stapled Unit amounts.

(e) Use of estimates and judgments

The preparation of the interim financial statements in conformity with IFRS requires Management to make judgments, estimates and assumptions that affect the application of accounting policies and the reported amounts of assets, liabilities, income and expenses. Actual results may differ from these estimates.

Estimates and underlying assumptions are reviewed on an ongoing basis. Revisions to accounting estimates are recognized in the period in which the estimates are revised and in any future periods affected.

The information about significant assumptions, areas of estimation uncertainty and critical judgments used by the Company in applying accounting policies that have the most significant effect on the amounts recognized in the interim financial statements are included in the following notes:

- Note 9 – valuation of inventory
- Note 10 – valuation of biological assets
- Note 11 – classification and valuation of investment property
- Note 12 – valuation of property, plant and equipment
- Note 17 – measurement of defined benefit obligations
- Note 18 – measurement of Stapled Unit-based payment arrangements
- Note 21 – valuation of financial instruments and derivative financial instruments

TimberWest Forest Corp.

Notes to the Unaudited Condensed Consolidated Interim Financial Statements

For the three months ended March 31, 2011 & 2010

(in millions of dollars, except per Stapled Unit and per common share amounts)

3. Significant accounting policies

The accounting policies set out below have been applied consistently to all periods presented in these interim financial statements and in preparing the opening IFRS statement of financial position at January 1, 2010 for the purposes of the transition to IFRS.

(a) Basis of consolidation

(i) Business combinations

As part of its transition to IFRS, the Company has elected not to restate business combinations that occurred prior to January 1, 2010.

(ii) Subsidiaries

Subsidiaries are entities controlled by the Company. At March 31, 2011, the principal wholly-owned subsidiaries of the Company are TimberWest Holdings Ltd., TimberWest Forest Company, TimberWest Forest I Limited, TimberWest Forest II Limited, TimberWest Forest III Limited, TimberWest Forest IV Limited, Couverdon GP Inc., Couverdon HQ/Elkhorn Limited Partnership and Couverdon Realty Ltd.

The financial statements of these subsidiaries are included in the interim financial statements from the date that control commenced until the date that control ceases. The accounting policies of these subsidiaries have been changed when necessary to align them with the policies adopted by the Company.

(iii) Transactions eliminated on consolidation

Intercompany balances and transactions, and any unrealized income and expenses arising from intercompany transactions, are eliminated in preparing the interim financial statements.

(b) Foreign currency

(i) Foreign currency transactions

Transactions in foreign currencies are translated to Canadian dollars at the exchange rate at the date of the transaction. Monetary assets and liabilities denominated in foreign currencies at the reporting date are translated to Canadian dollars at the exchange rate at that date. All foreign currency differences arising on translation are recognized in net earnings (loss) in the period incurred.

(c) Financial instruments

(i) Non-derivative financial assets

Cash and cash equivalents comprise cash balances and short-term investments with original maturities of three months or less and are presented at fair value.

Loans and receivables are financial assets with fixed or determinable payments that are not quoted in an active market. Loans and receivables for the Company comprise trade and other receivables. Such assets are recognized initially at fair value plus any directly attributable transaction costs. Subsequent to initial recognition loans and receivables are measured at amortized cost using the effective interest method, less any impairment losses.

The Company derecognizes a financial asset when the contractual rights to the cash flows from the asset expire, or it transfers the rights to receive the contractual cash flows on the financial asset in a transaction in which substantially all the risks and rewards of ownership of the financial asset are transferred.

A financial asset is assessed at each reporting date to determine whether there is objective evidence that it is impaired. The Company considers evidence of impairment for receivables at both a specific asset and collective level. In assessing for impairment the Company uses historical trends of the probability of default, timing of recoveries and the amount of loss incurred, adjusted for Management's judgment for current economic and credit

TimberWest Forest Corp.

Notes to the Unaudited Condensed Consolidated Interim Financial Statements

For the three months ended March 31, 2011 & 2010

(in millions of dollars, except per Stapled Unit and per common share amounts)

3. Significant accounting policies (continued)

(c) Financial instruments (continued)

conditions. Losses are recognized in net earnings (loss) in the period incurred and reflected in an allowance account against receivables.

(ii) Derivative and non-derivative financial liabilities

The Company considers its Series A Subordinate Notes owned by unitholders as a variable rate financial liability and measures these instruments at amortized cost using the effective interest rate method. The effective interest rate method establishes the rate which equates the estimated future cash flows with the net carrying amount of the financial liability. The embedded derivatives arising from the option to extend the Series A Subordinate Notes for a further 10 year period and from the option to defer the 2% distributions on the Series A Subordinate Notes for up to 18 months are measured at fair value through net earnings (loss).

The Company's convertible debentures are designated as held for trading and are measured at fair value at each reporting date through net earnings (loss).

The Company's drawings on the available revolving credit facility, and accounts payable and accrued liabilities are classified as other non-derivative financial liabilities, all of which are initially measured at fair value and subsequently measured at amortized cost using the effective interest rate method. Transaction costs incurred relating to the Company's revolving credit facility are deferred and capitalized on the Statement of Financial Position as they relate to debt refinancing held at amortized cost.

The Company derecognizes a financial liability when its contractual obligations are discharged, cancelled or expire.

Financial assets and liabilities are offset and the net amount presented in the Statement of Financial Position when, and only when, the Company has a legal right to offset the amounts and intends either to settle on a net basis or to realize the asset and settle the liability simultaneously.

(iii) Stapled Units

The Company issues equity by way of Stapled Units, each Stapled Unit consisting of approximately \$8.98 face amount of Series A Subordinate Notes 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.

Common shares

Common shares are classified as equity. Incremental costs directly attributable to the issue of common shares are recognized as a deduction from equity, net of any tax effects.

Series A Subordinate Notes

The Series A Subordinate Notes have been classified by the Company as a variable rate financial liability and measured at amortized cost using the effective interest rate method, see 3(c) (ii) above for further details.

(iv) Compound financial instruments

Compound financial instruments issued by the Company comprise convertible debentures that can be converted to Stapled Units at the option of the holder, and the number of Stapled Units to be issued does not vary with changes in their fair value.

The Company has elected to designate this compound financial instrument as held for trading and measured at fair value at each reporting date through net earnings (loss), see 3(c) (ii) above for further details.

Interest expense relating to the convertible debentures is recognized in net earnings (loss) as incurred.

TimberWest Forest Corp.

Notes to the Unaudited Condensed Consolidated Interim Financial Statements

For the three months ended March 31, 2011 & 2010

(in millions of dollars, except per Stapled Unit and per common share amounts)

3. Significant accounting policies (continued)

(d) Biological assets

Biological assets consist of the standing timber on the Company's privately held timberlands. Biological assets are measured at fair value less costs to sell, at each reporting date, with any changes in fair value, as a result of growth, harvest and change in valuation assumptions recognized in net earnings (loss) in the period incurred. Costs to sell include all costs that would be necessary to sell the assets. The fair value of the Company's standing timber is calculated as the present value of anticipated cash flows from these assets before tax. This present value is based on existing, sustainable harvesting plans and assessments regarding growth, timber prices, harvesting costs and reforestation costs. See note 10 for further details.

Standing timber is transferred to inventory at its fair value less estimated costs to sell at the date of harvest, which for the Company is at the point of scaling.

Land under standing timber is measured at cost less accumulated impairment losses and included in property, plant and equipment.

(e) Investment property

Investment property is property held by the Company for capital appreciation and is not for sale in the ordinary course of business or used in the production of goods or for administrative purposes. Investment property comprises freehold land held by the Company that has been identified as having higher and better use than operating as timberlands.

Investment property is measured at fair value at each reporting date, with any change therein recognized in net earnings (loss). The fair value of the Company's higher and better use lands is based on consideration of both current market values and the present value of anticipated cash flows from these assets before tax. Current market prices reflect the estimated amount for which a property could be exchanged, at the reporting date, between a willing buyer and a willing seller in an arm's length transaction. The present value of anticipated cash flows includes a yield specific to the risks inherent in the net cash flows. See note 11 for further details.

When the use of a property changes such that it is reclassified as property, plant and equipment and/or biological assets, its fair value at the date of reclassification becomes its cost for subsequent accounting.

(f) Property, plant and equipment

(i) Recognition and measurement

Land consists of land on which the standing timber is based as well as other parcels of land held by the Company for use in the production of goods or for administration purposes. Land is measured at cost less accumulated impairment losses.

All other items of property, plant and equipment are measured at cost less accumulated depreciation and accumulated impairment losses.

Cost includes an expenditure that is directly attributable to the acquisition of the asset. When parts of an item of property, plant and equipment have different useful lives, they are accounted for as separate items (major components) of property, plant and equipment. The cost of replacing a component of an item of property, plant and equipment is recognized in the carrying amount of the item if it is probable that the future economic benefits embodied within the component will flow to the Company and its cost can be measured reliably. The carrying amount of the replaced component is derecognized. The costs of the day-to-day servicing of property, plant and equipment are recognized in net earnings (loss) as incurred.

TimberWest Forest Corp.

Notes to the Unaudited Condensed Consolidated Interim Financial Statements

For the three months ended March 31, 2011 & 2010

(in millions of dollars, except per Stapled Unit and per common share amounts)

3. Significant accounting policies (continued)

(f) Property, plant and equipment (continued)

(i) Recognition and measurement (continued)

Gains and losses on disposal of an item of property, plant and equipment are determined by comparing the proceeds from disposal with the carrying amount of property, plant and equipment, and are recognized net within other expense (income) in net earnings (loss) as incurred.

(ii) Reclassification to investment property

When the use of a property changes from owner-occupied to investment property, the property is remeasured to fair value and reclassified as investment property. Any gain arising on remeasurement is recognized in net earnings (loss) as incurred to the extent the gain reverses a previous impairment loss on the specific property, with any remaining gain recognized in other comprehensive income and presented in the revaluation reserve in equity. Any loss is recognized immediately in net earnings (loss) as incurred.

(iii) Depreciation

Depreciation is recognized in net earnings (loss) on a straight-line basis over the estimated useful lives of each component of an item of property, plant and equipment, since this most closely reflects the expected pattern of consumption of the future economic benefits embodied in the asset. Land is not depreciated.

The estimated useful lives for the current and comparative periods are as follows:

Buildings	20 – 40 years
Machinery and equipment	4 – 20 years
Capital logging roads and permanent bridges	12 years
Portable bridges	20 years

Depreciation methods, useful lives and residual values are reviewed at each reporting date and adjusted, if appropriate.

(g) Intangible assets

The Company holds five renewable long-term crown timber tenures, including one TFL, two Forest Licences and two Timber Licences. Under the *Forest Act* and the *Forest and Range Practices Act*, the Ministry of Forests and Range regulates forestry operations on these lands and uses a system of timber tenures to provide the private sector with controlled access to the forest resource. Crown timber tenures provide licence holders with long-term access to timber through renewable licences.

The Company's crown timber tenures are accounted for as intangible assets that have finite useful lives and are measured at cost less accumulated amortization and accumulated impairment losses. Depletion is recognized in net earnings (loss), in a systemic manner based on the utilization of timber resources, or at minimum a straight line over 60 years, which approximates the estimated useful life.

TimberWest Forest Corp.

Notes to the Unaudited Condensed Consolidated Interim Financial Statements

For the three months ended March 31, 2011 & 2010

(in millions of dollars, except per Stapled Unit and per common share amounts)

3. Significant accounting policies (continued)

(h) Inventories

Inventories are measured at the lower of cost and net realizable value on an item by item basis defined as end use sorts for logs. The cost of inventories is based on the weighted average cost principle, and includes expenditures incurred in acquiring the inventories, production costs and other costs incurred in bringing them to their existing location and condition.

Net realizable value is the estimated selling price in the ordinary course of business, less the estimated costs of completion and selling expenses.

The cost of standing timber transferred from biological assets is its fair value less costs to sell at the date of harvest, which for the Company is at the point of scaling.

(i) Impairment of non-financial assets

The carrying amounts of the Company's non-financial assets, other than biological assets, investment property, inventories and deferred tax assets, are reviewed at each reporting date to determine whether there is any indication of impairment. If any such indication exists, then the asset's recoverable amount is estimated.

The recoverable amount of an asset or cash-generating unit ("CGU") is the greater of its value in use and its fair value less costs to sell. In assessing value in use, the estimated future cash flows are discounted to their present value using a pre-tax discount rate that reflects current market assessments of the time value of money and the risks specific to the asset.

The Company's corporate assets do not generate separate cash inflows. If there is an indication that a corporate asset may be impaired, then the recoverable amount is determined for the CGU to which the corporate asset belongs.

An impairment loss is recognized if the carrying amount of an asset or its CGU exceeds its estimated recoverable amount. Impairment losses are recognized in net earnings (loss) as incurred.

Impairment losses recognized in prior periods are assessed at each reporting date for any indications that the loss has decreased or no longer exists. An impairment loss is reversed if there has been a change in the estimates used to determine the recoverable amount. An impairment loss is reversed only to the extent that the asset's carrying amount does not exceed the carrying amount that would have been determined, net of depreciation or amortization, if no impairment loss had been recognized.

(j) Employee future benefits

The Company maintains pension plans that include defined benefit and defined contribution segments available to all salaried employees. Employees are no longer eligible to join the defined benefit plan.

(i) Defined contribution plans

A defined contribution plan is a post-employment benefit plan under which the Company pays fixed contributions into a separate entity and the Company has no legal or constructive obligation to pay further amounts once contributions have been paid. Obligations for contributions to defined contribution pension plans are recognized as an employee benefit expense in net earnings (loss) in the periods during which services are rendered by employees. Prepaid contributions are recognized as an asset to the extent that a cash refund or a reduction in future payments is available.

TimberWest Forest Corp.**Notes to the Unaudited Condensed Consolidated Interim Financial Statements****For the three months ended March 31, 2011 & 2010**

(in millions of dollars, except per Stapled Unit and per common share amounts)

3. Significant accounting policies (continued)**(j) Employee future benefits (continued)****(ii) Defined benefit plans**

A defined benefit plan is a post-employment benefit plan that defines an amount of pension benefit that an employee will receive on retirement, usually dependent on one or more factors such as age, years of service and compensation. The Company's net obligation in respect of its defined benefit pension plans is calculated by estimating the amount of future benefit that employees have earned in return for their service in the current and prior periods; that benefit is discounted to determine its present value. Any unrecognized past service costs and the fair value of any plan assets are deducted. The discount rate is the yield at the reporting date on high quality Canadian corporate bonds that have maturity dates approximating the terms of the Company's obligations. The calculation is performed annually by a qualified actuary using the projected benefit actuarial method.

When the calculation results in a benefit to the Company, the recognized asset is limited to the total of any unrecognized past service costs and the present value of economic benefits available in the form of any future refunds from the defined benefit plan or reductions in future contributions to the defined benefit plans. In order to calculate the present value of economic benefits, consideration is given to any minimum funding requirements that apply to the defined benefit plan.

Past service costs are recognized immediately in net earnings (loss) for the period, unless the changes to its defined benefit plans are conditional on the employees remaining in service for a specified period of time ("the vesting period"). In this case, the past service costs are amortized on a straight-line basis over the vesting period.

The Company recognizes all actuarial gains and losses arising from its defined benefit plans immediately in other comprehensive income, and reports them in retained earnings.

(iii) Other long-term employee benefits

The Company also provides supplementary pension plans and non-pension benefits consisting of group life insurance and medical benefits to eligible retired employees. The Company funds the supplementary and the non-pension plans on an as incurred basis as an employee expense in net earnings (loss) for the period. The Company's supplementary and non-pension net obligations are the amount of future benefit that employees have earned in return for their service in the current and prior periods; that benefit is discounted to determine its present value, and the fair value of any related assets is deducted. The discount rate is the yield at the reporting date on high quality Canadian corporate bonds that have maturity dates approximating the terms of the Company's obligations. The calculation is performed by a qualified actuary using the projected benefit actuarial method.

The Company recognizes all actuarial gains and losses arising from its supplementary and non-pension plans immediately into other comprehensive income, and reports them in retained earnings.

(k) Other employee benefits**(i) Short-term employee benefits**

Short-term employee benefits, including bonus plans, are measured on an undiscounted basis and are expensed as the related service is provided.

TimberWest Forest Corp.

Notes to the Unaudited Condensed Consolidated Interim Financial Statements

For the three months ended March 31, 2011 & 2010

(in millions of dollars, except per Stapled Unit and per common share amounts)

3. Significant accounting policies (continued)

(l) Stapled Unit-based payments arrangements

(i) Stapled Unit Option Plan

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.

The option to acquire a Stapled Unit effectively provides the option holder with an option on the Series A Subordinate Note component and an option on the equity component of the Stapled Unit. With the Series A Subordinate Note terms including distributions at a variable rate from 2% to 12% based on distributable cash levels and the current market value of the Stapled Unit being below the face value of the Series A Subordinate Note, the Company has determined that the value of the Stapled Unit options is in the debt component and that the equity component value is immaterial. As a result, the accounting for the options issued under the Company's Stapled Unit Option Plan is based on the guidance for cash-settled share-based payment arrangements.

The grant date fair value of a cash-settled share-based payment arrangement is recognized as an employee expense, with a corresponding liability, over the period that the employees unconditionally become entitled to the arrangement. The amount recognized as an expense is adjusted to reflect the number of arrangements for which the related service and non-market vesting conditions are expected to be met.

The liability is remeasured at each reporting date and at settlement date. Any changes in the fair value of the liability are recognized as employee compensation expense in net earnings (loss) in the period.

(ii) Distribution Equivalent Plan ("DE Plan")

The Company's Distribution Equivalent Plan ("DE Plan") was introduced as a supplement to the Stapled Unit Option Plan in 2001. Under this supplemental 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 DE 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.

Awards are accrued on a basis equal to actual distributions paid on the Company's issued and outstanding Stapled Units and are charged to net earnings (loss) as the underlying Stapled Units options vest.

(m) Provisions

The Company recognizes a provision if, as a result of a past event, it has a present legal or constructive obligation that can be estimated reliably, and it is probable that an outflow or economic benefits will be required to settle the obligations. The Company has recognized provisions for silviculture and environmental obligations.

British Columbia legislation requires the holders of crown timber tenures to assume the cost of reforestation on its tenures. Accordingly, the Company estimates the cost of reforestation on its crown timber tenures as the timber is harvested. Costs relating to the reforestation of the Company's private timberlands are expensed as incurred.

The fair value of the Company's provisions are determined by discounting the expected future cash flows at a pre-tax rate that reflects current market assessments of the time value of money and the risks specific to the liability.

In periods subsequent to the initial measurement, changes in the provisions resulting from revisions to estimated future costs are recognized in cost of sales within net earnings (loss) for the period as they occur. The unwinding of the discount associated with the respective provisions to reflect the passage of time are recognized as a finance cost within net earnings (loss) for the period.

TimberWest Forest Corp.

Notes to the Unaudited Condensed Consolidated Interim Financial Statements

For the three months ended March 31, 2011 & 2010

(in millions of dollars, except per Stapled Unit and per common share amounts)

3. Significant accounting policies (continued)

(m) Provisions (continued)

The portions of the respective provisions representing expenditures projected to take place within the next year are classified as current liabilities and the remainders are classified as long-term liabilities.

(n) Revenue

Revenue from the sale of goods in the course of ordinary activities is measured at the fair value of the consideration received or receivable. Revenue for log sales is recognized when persuasive evidence exists that the significant risks and rewards of ownership are transferred to the buyer, recovery of the consideration is probable, there is no continuing Management involvement with the logs, and the amount of revenue can be measured reliably. The timing of the transfers of risks and rewards varies depending on the individual terms of the contract of sale which, for log sales, is generally at the time of shipment, but taking into account the delivery terms of the sales contract. Amounts charged to customers relating to shipping and handling are included in revenue and the related shipping and handling costs incurred by the Company are recorded in cost of sales.

Revenue from the sale of land in the ordinary course of business is recognized when legal title and the risks and rewards of ownership of the property have transferred to the buyer, when recovery of consideration is probable and the amount of revenue can be measured reliably.

(o) Finance costs

Finance costs comprise interest expense on the revolving credit facility, convertible debentures and Series A Subordinate Notes owned by unitholders, as well as changes in fair value of financial instruments held for trading, financing transaction costs and amortization of deferred financing costs and the unwind of the discount on the Company's provisions.

(p) Income tax

Income tax expense comprises current and deferred tax. Current tax and deferred tax are recognized in net earnings (loss) except to the extent that it relates to items recognized directly in equity or in other comprehensive income.

Current tax is the expected tax payable or receivable on the taxable earnings or loss for the year, using tax rates enacted or substantively enacted at the reporting date, and any adjustment to tax payable in respect of previous years.

Deferred tax is recognized in respect of temporary differences between the carrying amounts of assets and liabilities for financial reporting purposes and the amounts used for taxation purposes. Deferred tax is measured at the tax rates that are expected to be applied to temporary differences when they reverse, based on the laws that have been enacted or substantively enacted by the reporting date. Deferred tax assets and liabilities are offset if there is a legally enforceable right to offset current tax liabilities and assets, and they relate to income taxes levied by the same tax authority on the same taxable entity, or on different tax entities, but they intend to settle current tax liabilities and assets on a net basis or their tax assets and liabilities will be realized simultaneously.

A deferred tax asset is recognized for unused tax losses, tax credits and deductible temporary differences, to the extent that it is probable that future taxable earnings will be available against which they can be utilized. Deferred tax assets are reviewed at each reporting date and are reduced to the extent that it is no longer probable that the related tax benefit will be realized.

TimberWest Forest Corp.

Notes to the Unaudited Condensed Consolidated Interim Financial Statements

For the three months ended March 31, 2011 & 2010

(in millions of dollars, except per Stapled Unit and per common share amounts)

3. Significant accounting policies (continued)

(q) Earnings per share

The Company presents basic and diluted earnings per share ("EPS") data for its common shares. Basic EPS is calculated by dividing the net earnings (loss) attributable to common shareholders of the Company by the weighted average number of common shares outstanding during the period. Diluted EPS is determined by adjusting the net earnings (loss) attributable to common shareholders and the weighted average number of common shares outstanding, adjusted for the effects of all dilutive potential common shares, which comprise convertible debentures and Stapled Unit options granted to employees.

(r) Segment reporting

A business segment is a group of assets and operations engaged in providing products or services that are subject to risks and returns that are different from those of other business segments. The Company has identified two business segments:

Timberlands – The Timberland division maximizes value by harvesting logs in a cost-effective manner consistent with sound safety, environmental and sustainable forestry practices and selling these products to targeted customers in both the domestic and higher value international markets.

Real Estate – Couverdon, the real estate division of TimberWest, has developed a long range strategic plan to realize value from land that has a higher and better use than timberlands. As at March 31, 2011, TimberWest has identified approximately 56,000 acres of its landholdings that, over an extended period of time, will have a higher and better use than timberland. This represents about 7% of the Company's landholdings.

Other – These are items that are unallocated to a business segment and mainly comprise corporate assets and expenses, interest expense and financing costs, as well as income tax assets and liabilities.

A geographical segment is engaged in providing products or services within a particular economic environment that is subject to risks and returns that are different from those of segments operating in other economic environments. The majority of Company's timberland business segment sales are to customers in Canada, the United States and Asia, while the Company's real estate segment sales are assets located only in Canada. All of TimberWest's biological assets, investment property, property, plant and equipment and intangible assets are substantially located on Vancouver Island, British Columbia, Canada.

(s) New standards and interpretations not yet adopted

The following new IFRS standard is not yet effective for the year ended December 31, 2011, and has not been applied in preparing these interim financial statements.

IFRS 9 – *Financial Instruments*

This standard will replace IAS 39 *Financial Instruments: Recognition and Measurement* and uses a single approach to determine whether a financial asset is measured at amortized cost or fair value, rather than a multiple rules approach under IAS 39. The new standard also requires a single impairment method to be used, replacing the multiple impairment methods in IAS 39. IFRS 9 is effective for years commencing on or after January 1, 2013. The Company has not yet determined the impact of IFRS 9 on its financial statements.

TimberWest Forest Corp.

Notes to the Unaudited Condensed Consolidated Interim Financial Statements

For the three months ended March 31, 2011 & 2010

(in millions of dollars, except per Stapled Unit and per common share amounts)

4. Explanation of transition to IFRS

As stated in note 2, these are the Company's first interim financial statements prepared in accordance with IFRS. The accounting policies set out in note 3 have been applied in preparing the interim financial statements for the three months ended March 31, 2011, the comparative information presented in these interim financial statements for both the three months ended March 31, 2010 and the year ended December 31, 2010 and in the preparation of an opening IFRS statement of financial position at January 1, 2010 (the Company's date of transition).

Optional exemptions

These interim financial statements have been prepared in accordance with IFRS 1. In doing so, the Company has applied certain of the optional exemptions from full retrospective application of IFRS. The optional exemptions applied by TimberWest are described below.

(i) Business combinations

The Company has elected to not apply IFRS 3 *Business Combinations* retrospectively to past business combinations. Accordingly, the Company has not restated business combinations that took place prior to the transition date.

(ii) Fair value as deemed cost

The Company has elected to measure certain items of property, plant and equipment, primarily land, capital roads and bridges, at fair value as at January 1, 2010, such that it becomes the deemed cost of those items going forward.

(iii) Employee future benefits

The Company has elected to recognize all cumulative unrecognized actuarial gains and losses for the Company's employee future benefit plans at the date of transition in opening retained earnings.

(iv) Share-based payment arrangements

The Company has elected not to re-measure equity awards granted after November 17, 2002 that vested prior to the date of transition and liabilities for cash-settled awards that were settled prior to the date of transition.

(v) Borrowing costs

The Company has elected to apply the transitional requirements of IAS 23 *Borrowing Costs* as the capitalization of borrowing costs to qualifying assets represents a change in accounting policy. As such, the Company has not capitalized any borrowing costs incurred, prior to January 1, 2010, in the acquisition or production of qualifying assets.

(vi) Arrangements containing a lease

The Company has elected not to re-assess arrangements existing at the date of transition, based on the facts and circumstances at that date, in accordance with IFRIC 4 *Determining whether an agreement contains a lease*.

The remaining IFRS 1 optional exemptions either have not or do not apply to the Company at the date of transition to IFRS on January 1, 2010.

Mandatory exception

In preparing these interim financial statements, in accordance with IFRS 1, the Company has ensured that hindsight was not used to create or revise estimates previously made at that same date by the Company under previous Canadian GAAP.

TimberWest Forest Corp.

Notes to the Unaudited Condensed Consolidated Interim Financial Statements

For the three months ended March 31, 2011 & 2010

(in millions of dollars, except per Stapled Unit and per common share amounts)

4. Explanation of transition to IFRS (continued)

In preparing its opening IFRS statement of financial position, the Company has adjusted amounts reported previously in financial statements prepared in accordance with previous Canadian GAAP. An explanation of how the transition from previous Canadian GAAP to IFRS has affected the Company's financial position, financial performance and cash flows is set out in the following tables and the notes that accompany the tables.

A. Reconciliation of equity

Unaudited (in millions of dollars)	Note	Previous	Effect of	IFRS	Previous	Effect of	IFRS	Previous	Effect of	IFRS
		Canadian GAAP	transition to IFRS		Canadian GAAP	transition to IFRS		Canadian GAAP	transition to IFRS	
		January 1, 2010			March 31, 2010			December 31, 2010		
Assets										
Current assets:										
Cash and cash equivalents		\$ 1.8	-	\$ 1.8	\$ 4.0	-	\$ 4.0	\$ 3.5	-	\$ 3.5
Trade and other receivables		5.8	-	5.8	7.1	-	7.1	6.2	-	6.2
Inventories	(f)	27.2	0.4	27.6	29.3	0.3	29.6	36.7	1.7	38.4
Prepaid expenses and other current assets		3.0	-	3.0	3.4	-	3.4	7.3	-	7.3
Current tax assets	(k)	1.6	(1.6)	-	1.7	(1.7)	-	1.9	(1.9)	-
		39.4	(1.2)	38.2	45.5	(1.4)	44.1	55.6	(0.2)	55.4
Biological assets	(b)	-	726.1	726.1	-	726.1	726.1	-	747.1	747.1
Investment property	(c)	-	154.0	154.0	-	154.4	154.4	-	166.0	166.0
Property, plant and equipment	(a)(b)(c)(d)(e)	1,213.0	(1,093.8)	119.2	1,212.4	(1,094.4)	118.0	1,209.7	(1,092.5)	117.2
Intangible assets	(d)	-	15.4	15.4	-	15.3	15.3	-	15.0	15.0
Deferred tax assets	(k)	-	2.0	2.0	-	1.6	1.6	-	1.7	1.7
Other assets		12.0	-	12.0	10.3	-	10.3	10.6	-	10.6
Total assets		\$ 1,264.4	(197.5)	\$ 1,066.9	\$ 1,268.2	(198.4)	\$ 1,069.8	\$ 1,275.9	(162.9)	\$ 1,113.0
Liabilities and Unitholders' Equity										
Current liabilities:										
Accounts payables and accrued liabilities	(g)	\$ 24.1	(3.5)	\$ 20.6	\$ 27.1	(5.3)	\$ 21.8	\$ 23.9	(6.3)	\$ 17.6
Provisions	(g)	-	4.5	4.5	-	4.4	4.4	-	5.2	5.2
Deferred distributions payable	(h)	3.3	0.1	3.4	6.7	0.2	6.9	34.1	0.7	34.8
		27.4	1.1	28.5	33.8	(0.7)	33.1	58.0	(0.4)	57.6
Revolving credit facility		152.6	-	152.6	154.6	-	154.6	106.5	-	106.5
Convertible debentures		207.8	-	207.8	226.8	-	226.8	248.1	-	248.1
Provisions	(g)	-	4.4	4.4	-	4.5	4.5	-	5.1	5.1
Long-term silviculture liability	(g)	3.0	(3.0)	-	3.2	(3.2)	-	3.5	(3.5)	-
Employee future benefits	(i)	37.1	7.6	44.7	37.2	6.4	43.6	36.9	3.7	40.6
Stapled Unit option plan	(j)	1.5	0.7	2.2	1.6	1.4	3.0	1.4	1.6	3.0
Deferred distribution payable	(h)	28.8	2.1	30.9	29.0	1.8	30.8	11.1	0.8	11.9
Deferred tax liabilities	(k)	171.1	(25.5)	145.6	169.2	(25.3)	143.9	166.9	(20.0)	146.9
		629.3	(12.6)	616.7	655.4	(15.1)	640.3	632.4	(12.7)	619.7
Series A Subordinate Notes owned by unitholders		247.1	-	247.1	249.5	-	249.5	315.1	-	315.1
Total liabilities		876.4	(12.6)	863.8	904.9	(15.1)	889.8	947.5	(12.7)	934.8
Unitholders' equity										
Share capital		191.0	-	191.0	191.0	-	191.0	191.5	-	191.5
Contributed surplus		2.0	-	2.0	2.0	-	2.0	2.1	-	2.1
Retained earnings (deficit)		195.0	(184.9)	10.1	170.3	(183.3)	(13.0)	134.8	(150.2)	(15.4)
Total unitholders' equity		388.0	(184.9)	203.1	363.3	(183.3)	180.0	328.4	(150.2)	178.2
Total liabilities and unitholders' equity		\$ 1,264.4	(197.5)	\$ 1,066.9	\$ 1,268.2	(198.4)	\$ 1,069.8	\$ 1,275.9	(162.9)	\$ 1,113.0

TimberWest Forest Corp.

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For the three months ended March 31, 2011 & 2010

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4. Explanation of transition to IFRS (continued)

B. Reconciliation of comprehensive earnings (loss)

Unaudited (in millions of dollars)	Note	Previous Canadian GAAP	Effect of transition to IFRS March 31, 2010	IFRS	Previous Canadian GAAP	Effect of transition to IFRS December 31, 2010	IFRS
Revenue		\$ 58.7	-	\$ 58.7	\$ 268.1	-	\$ 268.1
Operating costs and expenses:							
Cost of sales	(e)(f)(g)(i)(j)	52.5	(2.3)	50.2	235.5	(2.3)	233.2
Selling and administrative expenses	(j)	3.1	0.6	3.7	11.6	0.6	12.2
Depreciation, depletion and amortization		1.1	(1.1)	-	4.3	(4.3)	-
		56.7	(2.8)	53.9	251.4	(6.0)	245.4
		2.0	2.8	4.8	16.7	6.0	22.7
Change in fair value of biological assets	(b)	-	-	-	-	23.1	23.1
Change in fair value of investment property	(c)	-	-	-	-	13.5	13.5
Other income (expense)		(0.1)	-	(0.1)	-	-	-
Operating earnings (loss)		1.9	2.8	4.7	16.7	42.6	59.3
Interest expense:							
Series A Subordinate Notes owned by unitholders	(h)	5.3	(0.3)	5.0	24.0	(1.4)	22.6
Convertible debentures		3.5	-	3.5	14.5	-	14.5
Revolving credit facility		2.6	-	2.6	9.1	-	9.1
		11.4	(0.3)	11.1	47.6	(1.4)	46.2
Amortization of deferred financing costs		1.0	-	1.0	2.8	-	2.8
Change in fair value of financial instruments held for trading		16.7	-	16.7	31.5	-	31.5
Unwind of discount on provisions	(g)(h)	-	0.2	0.2	-	0.9	0.9
Finance costs		29.1	(0.1)	29.0	81.9	(0.5)	81.4
Earnings (loss) before income tax		(27.2)	2.9	(24.3)	(65.2)	43.1	(22.1)
Income tax expense (recovery)	(k)	(2.5)	0.9	(1.6)	(5.0)	6.7	1.7
Net earnings (loss)		(24.7)	2.0	(22.7)	(60.2)	36.4	(23.8)
Other comprehensive earnings (loss)							
Defined benefit plan actuarial gains (losses)	(i)	-	(0.6)	(0.6)	-	(2.3)	(2.3)
Income tax recovery on defined benefit plan actuarial gains (losses)	(k)	-	0.2	0.2	-	0.6	0.6
Other comprehensive earnings (loss) for the period, net of income tax		-	(0.4)	(0.4)	-	(1.7)	(1.7)
Total comprehensive earnings (loss) for the period		\$ (24.7)	1.6	\$ (23.1)	\$ (60.2)	34.7	\$ (25.5)
Earnings (loss) per share							
Basic and diluted earnings (loss) per common share		(0.32)		(0.29)	(0.70)		(0.28)

TimberWest Forest Corp.

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4. Explanation of transition to IFRS (continued)

Notes to the reconciliations of equity and comprehensive earnings (loss):

(a) Property, plant and equipment – reclassifications

Under IFRS, the Company's property, plant and equipment was reduced by \$1,085.7 million as a result of assets being separately disclosed on the Statement of Financial Position. This includes the Company's standing timber on its private timberlands with a net book value under previous Canadian GAAP of \$943.1 million being reclassified to biological assets (note 4(b)), the Company's higher and better use lands with a net book value under previous Canadian GAAP of \$127.2 million being reclassified to investment property (note 4(c)) and the Company's crown timber tenures with a net book value under previous Canadian GAAP of \$15.4 million being reclassified to intangible assets (note 4(d)).

In addition, the Company reassessed the definition of asset classes within property, plant and equipment itself. This gave rise to land of \$95.6 million, previously defined and included within timberlands, being considered within the land asset class of property, plant and equipment under IFRS. Lastly, capital roads and bridges with a net book value of \$13.7 million that were previously defined and included within timberlands, under IFRS, have been identified as a separate asset class of property, plant and equipment.

Unaudited

(in millions of dollars)

	Note	January 1, 2010
Property, plant and equipment, previous Canadian GAAP		\$ 1,213.0
Biological assets - reclassification	(b)	(943.1)
Investment property – reclassification	(c)	(127.2)
Intangible assets – reclassification	(d)	(15.4)
Land – deemed cost	(e)	(24.6)
Capital roads and bridges – deemed cost	(e)	16.5
Property, plant and equipment, IFRS		\$ 119.2

(b) Biological assets

In accordance with IAS 41 *Agriculture*, the Company's standing timber on its private timberlands is considered to be a biological asset that is measured at fair value less costs to sell at each reporting date, with changes in fair value less costs to sell recognized in net earnings (loss) in the period incurred. Under previous Canadian GAAP, private timberlands, including standing timber, was included within the Company's property, plant and equipment and recognized at historical cost. As a result of this IFRS guidance, the Company's standing timber on its private timberlands has been separately identified on the Statement of Financial Position as biological assets with a fair value less costs to sell at January 1, 2010 of \$726.1 million. The \$726.1 million reflects a reclassification from property, plant and equipment of \$943.1 million and a decrease of \$217.0 million to reflect fair value less costs to sell at transition date. The decrease of \$217.0 million was included in retained earnings at January 1, 2010. The key assumptions used in to establish this fair value less costs to sell are discussed in note 10 to these interim financial statements.

Biological assets at March 31, 2010 and December 31, 2010, reflect this initial fair value less costs to sell at January 1, 2010, adjusted for the effects of any asset sales, growth, harvest and changes in valuation assumptions during the respective periods. The change in fair value less cost to sell for the Company's biological assets for the year ended December 31, 2010 totaled \$23.1 million and is separately disclosed in net earnings (loss) on the Statement of Comprehensive Earnings.

TimberWest Forest Corp.

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4. Explanation of transition to IFRS (continued)

(c) Investment property

Under IFRS, the Company's higher and better use lands are considered to be investment property and are accounted for based on guidance in IAS 40 *Investment Property*. On transition to IFRS, the Company elected to measure its investment property using the fair value model, in which each property is measured at fair value at each reporting date, with changes in fair value recognized in net earnings (loss) in the period incurred. Under previous Canadian GAAP, higher and better use lands were included within the Company's property, plant and equipment and recognized at historical cost. As a result of this IFRS guidance and the Company's accounting policy choice on transition, the Company's higher and better use lands have been separately identified on the Statement of Financial Position as investment property with a fair value at January 1, 2010 of \$154.0 million. The \$154.0 million reflects a reclassification from property, plant and equipment of \$127.2 million and an increase of \$26.8 million to reflect fair value at transition date. The increase of \$26.8 million was included in retained earnings at January 1, 2010. The key assumptions used to establish this fair value are discussed in note 11 to these interim financial statements.

Investment property at March 31, 2010 and December 31, 2010, reflect this initial fair value at January 1, 2010, adjusted for the effects of any asset sales, additions and changes in valuation assumptions during the respective periods. The change in fair value for the Company's investment property for the year ended December 31, 2010 totaled \$13.5 million and is separately disclosed in net earnings (loss) on the Statement of Comprehensive Earnings.

(d) Intangible assets

Under IFRS, the Company's crown timber tenures are considered to be contractual licenses whereby the Company gains the right to harvest timber. As a result, these crown timber tenures are considered to be finite lived intangible assets in accordance with guidance in IAS 38 *Intangible Assets*. On transition date, the net book value of the Company's crown timber tenures of \$15.4 million was reclassified from within property, plant and equipment to be separately identified as intangible assets on the Statement of Financial Position.

(e) Property, plant and equipment – deemed cost

On transition to IFRS, the Company elected to measure certain items of property, plant and equipment, primarily land, capital roads and bridges, at fair value, which is then considered to be the deemed cost of those assets prospectively. On January 1, 2010, this election resulted in a decrease to the carrying value of land of \$24.6 million and an increase to the net book value of capital roads and bridges of \$16.5 million when compared to previous Canadian GAAP. The net decrease of \$8.1 million was included in retained earnings at January 1, 2010. Depreciation expense associated with capital roads and bridges under IFRS was increased by \$0.3 million and \$1.4 million when compared to that recognized under previous Canadian GAAP, for the three months ended March 31, 2010 and for the year ended December 31, 2010, respectively, as a result of the increased net book value of capital roads and bridges at January 1, 2010.

(f) Inventory

As a result of the Company's standing timber on its private timberlands being considered a biological asset in accordance with IAS 41 *Agriculture*, logs harvested from these private timberlands are considered to be agricultural produce at the point of scaling, which are measured and transferred to inventory at fair value less costs to sell. Under previous Canadian GAAP, log inventory was measured based on the lower of the average cost of production and net realizable value. As a result of this change, log inventory increased by \$0.4 million as at January 1, 2010, with a corresponding increase to retained earnings.

TimberWest Forest Corp.**Notes to the Unaudited Condensed Consolidated Interim Financial Statements****For the three months ended March 31, 2011 & 2010**

(in millions of dollars, except per Stapled Unit and per common share amounts)

4. Explanation of transition to IFRS (continued)**(f) Inventory (continued)**

Under IFRS, log inventory increased by \$0.3 million and \$1.7 million as at March 31, 2010 and December 31, 2010, respectively, when compared to Canadian GAAP. These increases were recognized as a decline in cost of sales during the three month period ended March 31, 2010 and the year ended December 31, 2010.

(g) Provisions – silviculture and environmental obligations

IAS 37 *Provisions, Contingent Liabilities and Contingent Assets*, has a lower recognition threshold and minor measurement differences when compared to previous Canadian GAAP. These measurement differences include the requirement to reflect the risks associated with the Company's provisions in either the cash flows or the discount rate. As a result of these measurement differences, the Company's silviculture and environmental provisions at January 1, 2010 increased by \$0.4 million and \$2.0 million, respectively, with a corresponding decrease to retained earnings. In addition, these obligations have been separately disclosed as provisions on the Statement of Financial Position, which as at January 1, 2010, resulted in \$3.5 million and \$3.0 million being reclassified from accounts payable and accrued liabilities and long-term silviculture liability under previous Canadian GAAP to provisions under IFRS.

As at March 31, 2010 and December 31, 2010, under IFRS, the Company recognized an increase of \$0.4 million and \$0.5 million, respectively, to provisions, when compared to previous Canadian GAAP.

Under IFRS, the unwind of the discount associated with these provisions has been recognized within finance costs on the Statement of Comprehensive Earnings rather than within cost of sales as under previous Canadian GAAP. As a result of this presentation change and the measurement differences for provisions the Company recognized a decrease in cost of sales of \$2.1 million and an increase in finance costs of \$0.2 million for the year ended December 31, 2010, when compared to previous Canadian GAAP.

(h) Deferred distribution payable

Similar to the silviculture and environmental obligations in note 4(g) above, there are measurement differences with respect to the requirement to reflect the risks associated with the Company's deferred distribution payable in either the cash flows or the discount rate. As a result of these measurement differences, the Company's deferred distribution payable at January 1, 2010 increased by \$2.2 million, with a corresponding decrease to retained earnings.

As at March 31, 2010 and December 31, 2010, under IFRS, the Company recognized an increase of \$2.0 million and \$1.5 million, respectively, to its deferred distribution payable, when compared to previous Canadian GAAP.

Under IFRS, the unwind of the discount associated with this deferred distribution payable has been recognized within finance costs on the Statement of Comprehensive Earnings rather than within interest expense as under previous Canadian GAAP. As a result of this presentation change and the measurement differences for deferred distribution payable the Company recognized an increase in finance costs of \$0.7 million for the year ended December 31, 2010, when compared to previous Canadian GAAP.

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4. Explanation of transition to IFRS (continued)

(i) Employee future benefits

Under IFRS, the Company's accounting policy is to recognize all actuarial gains and losses immediately in other comprehensive earnings. Under previous Canadian GAAP the Company's accounting policy was such that the excess of the net actuarial gain (loss) over 10% of the greater of the benefit obligation and the fair value of the plan assets was amortized over the average remaining life expectancy of inactive employees. At the date of transition, all previously cumulative unrecognized actuarial gains and losses were recognized in retained earnings. This gave rise to increases to the pension and non-pension employee future benefit liabilities at January 1, 2010 of \$1.2 million and \$6.4 million, respectively, with corresponding decreases to retained earnings.

In addition, as a result of the Company's accounting policy choice to recognize all actuarial gains and losses immediately in other comprehensive earnings, net earnings (loss) for the year ended December 31, 2010 was increased by \$6.2 million and other comprehensive earnings decreased by \$2.3 million, when compared to previous Canadian GAAP.

(j) Stapled Unit option plan

In 2009 and 2010, the Company granted cash-settled Stapled Unit-based payments to certain employees through its Stapled Unit option plan. *IFRS 2 Share-Based payments*, requires that a liability for cash-settled awards, including the Company's Stapled Unit option plan, be measured at fair value at grant date, and that the liability be re-measured to fair value at each reporting date and ultimately at settlement date. Under previous Canadian GAAP, the Company measured the Stapled Unit options issued since January 1, 2009 using the intrinsic value method, which uses the balance sheet date Stapled Unit price to calculate the liability. As a result of this change, the fair value of the Stapled Unit option plan increased by \$0.7 million at January 1, 2010, with a corresponding decrease to retained earnings.

As at March 31, 2010, under IFRS, the Company recognized an increase of \$1.4 million to the Stapled Unit option plan liability when compared to previous Canadian GAAP, which represented a \$0.7 million increase over the obligation recorded at January 1, 2010 under IFRS. This change of \$0.7 million was recognized as an increase to cost of sales of \$0.1 million and an increase to selling and administration expenses of \$0.6 million during the three month period ended March 31, 2010, when compared to previous Canadian GAAP.

As at December 31, 2010, under IFRS, the Company recognized an increase of \$1.6 million to the Stapled Unit option plan liability when compared to previous Canadian GAAP, which represented a \$0.9 million increase over the obligation recorded at January 1, 2010 under IFRS. This change of \$0.9 million was recognized as an increase to cost of sales of \$0.3 million and an increase to selling and administrative expenses of \$0.6 million during the year ended December 31, 2010, when compared to previous Canadian GAAP.

(k) Income taxes

The deferred income tax adjustments reflect the change in temporary differences resulting from the effect of the IFRS adjustments described above. As at January 1, 2010 deferred tax liabilities decreased by \$25.5 million and deferred tax assets increased by \$0.4 million when compared to previous Canadian GAAP, with a corresponding net increase to retained earnings. The income tax recovery decreased by \$0.9 million for the three months ended March 31, 2010, when compared to previous Canadian GAAP. For the year ended December 31, 2010 the income tax recovery decreased by \$6.7 million, when compared to previous Canadian GAAP, to give rise to an income tax expense of \$1.7 million under IFRS. In addition, under IFRS, an income tax recovery of \$0.6 million was recognized in other comprehensive earnings (loss) for the year ended December 31, 2010, when compared to previous Canadian GAAP.

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4. Explanation of transition to IFRS (continued)

Material Adjustments to the Statements of Cash Flows

On transition to IFRS, the adjustments noted above have no direct impact on the cash and cash equivalents balance but rather give rise to presentation differences on the statement of cash flows. The main presentation differences when compared to previous Canadian GAAP relate to the additional non-cash items added back within cash flow from operating activities as a result of fair value measurement, and, the separate presentation of interest and income taxes paid as line items within cash flows from operating activities. There are no other material differences between the statements of cash flows presented under IFRS and the statement of cash flows presented under previous Canadian GAAP.

5. Operating segments

The Company has two reportable segments, timberlands and real estate.

Information regarding the results of each reportable segment is included below. Performance is measured based on segment operating earnings (loss) and cash flow.

(in millions of dollars)	Three months ended March 31, 2011			
	Timberlands	Real Estate	Other	Total
Revenue	85.0	-	-	85.0
Depreciation and depletion	1.2	-	0.2	1.4
Operating earnings (loss)	18.9	(0.8)	(4.1)	14.0
Total assets	952.4	167.3	21.0	1,140.7
Additions to biological assets	20.4	-	-	20.4
Additions to investment property	-	0.6	-	0.6
Additions to property, plant and equipment	2.2	-	0.1	2.3

(in millions of dollars)	Three months ended March 31, 2010			
	Timberlands	Real Estate	Other	Total
Revenue	57.7	1.0	-	58.7
Depreciation and depletion	1.2	-	0.2	1.4
Operating earnings (loss)	7.0	-	(2.3)	4.7
Total assets	895.2	154.7	19.9	1,069.8
Additions to biological assets	-	-	-	-
Additions to investment property	-	0.4	-	0.4
Additions to property, plant and equipment	0.1	-	-	0.1

6. Seasonality of operations

The Company operates in a cyclical industry and it also experiences some seasonal fluctuations in quarterly results due to market conditions and weather-related factors having an effect on harvesting operations. Earnings in the second half of the year generally trend lower as a result of fire season shutdowns and increased cost of harvesting at higher elevations.

TimberWest Forest Corp.

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7. Income taxes

(in millions of dollars)	Note	Three months ended March 31	
		2011	2010
Current tax recovery		\$ -	\$ (0.5)
Deferred tax recovery		(1.2)	(1.1)
Income tax recovery		\$ (1.2)	\$ (1.6)
Income tax recovery on defined benefit plan actuarial gains (losses)		\$ -	\$ (0.2)

The Company's effective income tax rate differs from the Canadian statutory income tax rate. The principal factors causing the difference are as follows:

	Three months ended March 31	
	2011	2010
Earnings (loss) before income taxes	\$ (8.3)	\$ (24.3)
Income tax recovery at statutory rates (2011 -26.5%; 2010 – 28.5%)	(2.2)	(6.9)
Current income tax recovery	-	(0.5)
Adjustment to net deferred tax liabilities for changes in tax rates	(0.2)	1.7
Permanent differences tax effected at statutory tax rates	2.9	4.1
Change in prior year estimated tax values	(1.8)	-
Other	0.1	-
Income tax recovery	(1.2)	(1.6)

8. Earnings (loss) per common share

	Three months ended March 31	
	2011	2010
Net earnings (loss)	(7.1)	(22.7)
Basic weighted average number of common shares	91,491,359	77,794,457
Incremental common shares from potential exercise of options	537,305	591,969
Diluted weighted average number of common shares	92,028,664	78,386,426
Basic and diluted net earnings (loss) per common share	(0.08)	(0.29)

The convertible debentures have been considered in the computation of diluted earnings (loss) per share and given that the Company has generated losses these were determined to have been anti-dilutive.

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9. Inventories

(in millions of dollars)	March 31, 2011	December 31, 2010	January 1, 2010
Log inventory	\$ 38.8	\$ 38.4	\$ 27.6

For the three months ended March 31, 2011, log inventory was written down by \$0.1 million which was expensed to cost of sales for the period (Q1, 2010 - the write-down was reduced by \$0.9 million which was offset against cost of sales). Inventory harvested from private timberlands is carried at fair value less cost to sell which was approximately \$23.3 million as at March 31, 2011 (\$22.9 million as at December 31, 2010).

10. Biological assets

The Company's private timberlands are classified as a growing forest, with the standing timber defined and recognized as a biological asset at fair value less costs to sell at each reporting date, with the underlying land being considered a component of property, plant and equipment and recognized at cost less accumulated impairment losses (note 12).

(in millions of dollars)	
Balance, January 1, 2010	\$ 726.1
Decrease due to dispositions	(2.1)
Change in fair value (biological growth and price effects)	47.2
Change due to harvested timber transferred to inventories	(24.1)
Balance, December 31, 2010	\$ 747.1
Balance, January 1, 2011	\$ 747.1
Decrease due to dispositions	-
Increases due to acquisition	20.4
Change in fair value (biological growth and price effects)	6.0
Change due to harvested timber transferred to inventories	(6.0)
Balance, March 31, 2011	\$ 767.5

As at March 31, 2011 the Company's standing timber is located on approximately 327,000 hectares (December 31, 2010: 320,000 hectares), and is primarily comprised of second growth timber consisting mainly of Douglas fir and Hemlock species.

On February 9, 2011, the Company acquired 7,678 hectares of private timberland on Vancouver Island for a combined cost of purchase price plus acquisition costs of \$22.4 million of which \$20.4 million was recognized as the fair value less costs to sell of the acquired biological assets, with the remaining \$2.0 million recorded as acquired land and recognized as a component within property, plant and equipment (note 12).

No private timberland dispositions were made in Q1, 2011 and Q1, 2010. During the 2010 year, the Company, through its real estate operating segment, sold 867 hectares (2,141 acres) of private timberland with a fair value less costs to sell of the standing timber of \$2.1 million and a net book value of land of \$0.2 million (see Note 12), for a gain on sale of \$5.1 million.

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10. Biological assets (continued)

The Company's standing timber has a total estimated merchantable timber volume of 58.3 million m³ (December 31, 2010 - 56.1 million m³). Annual harvesting volumes are estimated on the basis of the Company's Long Term Economic Harvest Level ("LTEHL"). According to the current plan, which came into effect in 2010, the Company's LTEHL was set at 9.0 million m³ for the next five years or an average harvest volume of 1.8 million m³ per annum. The LTEHL depicts the Company's planned harvest volume over the next five years from the Company's private timberlands with the best information available on log prices, costs, logging constraints, and end use markets for the period. Market conditions may dictate harvesting more or less than the 1.8 million m³ in any one year but the average annual harvest over the five year period is projected to be 1.8 million m³. If the underlying assumptions in this LTEHL analysis remain unchanged in future years, the Company will be able to harvest 1.8 million m³ per year into perpetuity on its private timberlands.

During the three months ended March 31, 2011, the Company harvested 0.5 million m³ from its private timberlands, which had an average fair value less costs to sell of \$76 per m³ at the date of harvest (Q1, 2010 - 0.4 million m³ with an average fair value less costs to sell of \$67 per m³).

The Company's assessment is that no relevant market prices for private timberlands as extensive as TimberWest's are available to be used to value the standing timber holdings of the Company. The valuation of the standing timber is therefore established by calculating the present value of expected cash flows from the growing forest and has been established by Management with the assistance of an independent valuator. The annual valuation of standing timber was carried out during the fourth quarter of 2009 and 2010 using a consistent methodology for establishing fair value less costs to sell. The fair value of the Company's standing timber is based on the following significant assumptions:

- (i) harvestable volumes have been determined as the estimated future volume and current standing volume to be harvested over the sustainable life of the privately held timberlands in accordance with the Company's most recent LTEHL. The methodology used to assess the volume of standing timber is based on the inputs and assumptions associated with the net planted area, estimated growth rates, estimated yield per hectare and expected sustainable harvest management practices;
- (ii) log price assumptions used in the valuation were based on consideration on the Company's historical actual log prices, Management's forecast long term trend pricing for its species mix as well as consideration of forecast pricing trends published by third party analysts and independent valutors;
- (iii) harvest and operating costs were assumed to be consistent with the Company's past experience and actual operating results;
- (iv) the costs associated with the land owned by the Company on which standing timber is grown include land taxes and other costs and were assumed to be consistent with the Company's past experience;
- (v) all price and cost assumptions were assessed in real dollars without the estimate of inflation;
- (vi) cash flows were made for the coming 50 years, which is regarded as the harvesting cycle of the forest;
- (vii) the valuation assumes the continuation of existing practices with regard to silviculture and harvesting; and

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10. Biological assets (continued)

(viii) a discount rate of 7.5% has been applied to the estimated future cash flows in arriving at net present value at December 31, 2010 and 2009. This discount rate has been determined with reference to the Company's market determined discount rate for this asset type based on advice from an independent expert.

The financial risks associated with standing timber are mitigated by the geographical diversification of the asset and management strategies including fire management strategies and regular inspection for pest infestation.

At each interim reporting date, the Company examines market and asset conditions to determine if changing conditions would yield a change in fair value less costs to sell. The Company reviewed the underlying assumptions and conditions impacting its standing timber as at and for the three months ended March 31, 2011 and noted no indication that a full re-assessment of fair value less costs to sell was warranted at that date.

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11. Investment property

(in millions of dollars)

Balance, January 1, 2010	\$ 154.0
Additions	3.4
Dispositions	(4.9)
Change in fair value	13.5
Balance, December 31, 2010	\$ 166.0
Balance, January 1, 2011	\$ 166.0
Additions	0.6
Dispositions	-
Change in fair value	-
Balance, March 31, 2011	\$ 166.6

Investment property consists of land that has been identified as having a higher and better use than as timberlands. As at January 1, 2010, the Company identified approximately 56,000 acres of higher and better use lands that are held for capital appreciation for the foreseeable future. As a result, no further parcels of higher and better use land were identified as investment property as at December 31, 2010 and March 31, 2011. This represents about 7% of the Company's landholdings.

No investment property dispositions were made in Q1, 2011 and in Q1, 2010. During the 2010 year, the Company, through its real estate operating segment, sold 818 acres of investment property with a fair value of \$4.9 million, for a gain on sale of \$0.3 million.

The fair value of the Company's investment property is based on the estimated amount for which each property could be exchanged at the reporting date between a willing buyer and a willing seller in an arm's length transaction where each party acted knowledgeably and willingly.

The Company has established the fair value of its investment property at each reporting date based on the combination of an external independent valuation and an internal discounted cash flow valuation, as well as considering other publically available information including recent comparable property sales. The external independent valuator has the recognized professional qualifications and experience on Vancouver Island to establish the fair value of the Company's investment property portfolio. This external independent valuation is performed at least annually or more frequently if warranted by changing market conditions.

12. Property, plant and equipment

(in millions of dollars)	March 31, 2011	December 31, 2010	January 1, 2010
Net book value			
Land	\$ 83.5	\$ 81.5	\$ 81.7
Capital roads and bridges	26.9	27.6	30.2
Logging buildings and equipment	5.6	5.7	5.8
Other equipment and buildings	2.3	2.4	1.5
	\$ 118.3	\$ 117.2	\$ 119.2

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13. Other assets

(in millions of dollars)	Note	March 31, 2011	December 31, 2010	January 1, 2010
Deferred financing costs		\$ 2.4	\$ 2.6	\$ 5.4
Financial instruments	21	6.0	6.7	5.9
Other		1.3	1.3	0.7
		\$ 9.7	\$ 10.6	\$ 12.0

Financial instruments of \$6.0 million include the value of two embedded derivatives as outlined below.

The Company has the option to defer the distributions payable to its unitholders for a period of up to 18 months in length while the distribution rate is set at 2% (note 20). This option constitutes an embedded derivative and is measured at its fair value. As the Company has elected to defer distributions for the immediate future, the value to the Company of this option at March 31, 2011 is \$5.3 million (December 31, 2010 - \$6.0 million).

The embedded derivative arising from the option to extend the maturity of the Series A Subordinate Notes for a further 10-year period from 2038 to 2048 is measured at its fair value of \$0.7 million (December 31, 2010 - \$0.7 million).

Changes in the fair value of these embedded derivatives from one period to the next are recognized in net earnings (loss) as incurred (note 21).

14. Revolving credit facility

The Company's revolving credit facility is as follows:

(in millions of dollars)	March 31, 2011	December 31, 2010	January 1, 2010
Secured revolving credit facility of up to \$230.0 million due February 11, 2012 with interest based on Canadian or US Prime rates + 5%, or Canadian BA rates + 6%	\$ 119.0	\$ 106.5	\$ 152.6
Less current portion	(119.0)	-	-
	\$ -	\$ 106.5	\$ 152.6

Under the secured revolving credit facility, funds are available to the Company in Canadian and US dollars by way of adjusted Canadian bankers' acceptances plus 6%, or Canadian or US prime rates plus 5% loans and letters of credit. This facility has been underwritten by a syndicate of banks and is due on February 11, 2012.

The facility includes financial covenants to maintain:

- a waiver of the minimum EBITDA for 2011, with the maximum availability under the line set at \$215.0 million for 2011. So long as the Company generates minimum EBITDA of \$325,000 per quarter on a cumulative basis in 2011, then the maximum availability under the line will be increased to \$230.0 million for 2011;
- consolidated tangible net worth at the end of each quarter in excess of \$700.0 million;
- consolidated debt is less than 40% of capitalization;
- consolidated debt is less than 40% of the market value of the Company's private timberlands and higher use properties; and
- a permanent repayment provision which specifies that once cumulative real estate proceeds exceed \$50 million, 50% of additional proceeds will be applied to permanently reduce the facility size. The remaining 50% can be used by the Company to improve its liquidity. Current cumulative real estate proceeds are \$37.4 million.

TimberWest Forest Corp.

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For the three months ended March 31, 2011 & 2010

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14. Revolving credit facility (continued)

Bank EBITDA calculations include proceeds of real estate sales and other items. At March 31, 2011 the Company is in compliance with the terms of its revolving credit facility.

Transaction costs related to this refinancing have been deferred and capitalized on the Statement of Financial Position as they relate to debt refinancing held at amortized cost. The unamortized balance of these costs at March 31, 2011 was \$2.4 million (December 31, 2010 - \$2.6 million). Amortization of deferred financing costs relating to the revolving credit facility recognized in earnings (loss) for the period was \$0.7 million (Q1, 2010 - \$1.0 million).

15. Convertible debentures

The Company's convertible debentures, which are measured at fair value through net earnings (loss) are as follows:

(in millions of dollars)	Note	Face Value	Fair Value
Balance, January 1, 2010		\$ 153.4	\$ 207.8
Change in value as a result of:			
Interest paid in kind through issuance of convertible debentures		7.0	9.5
Conversions	20	(0.1)	(0.1)
Change in fair value		-	30.9
Balance, December 31, 2010		\$ 160.3	\$ 248.1
Balance, January 1, 2011		\$ 160.3	\$ 248.1
Change in value as a result of:			
Conversions	20	-	-
Change in fair value	21	-	9.3
Balance, March 31, 2011		\$ 160.3	\$ 257.4

The convertible debentures mature on February 11, 2014 and as at March 31, 2011 are convertible into Stapled Units at approximately \$3.44, which is subject to further adjustments as provided under the conversion privilege. The convertible debentures pay interest quarterly at 9% per annum. The Company has elected to designate this obligation as held for trading and is revalued at fair value at each reporting date. Changes in fair value from one period to the next are recognized in net earnings (loss) as incurred.

For the three months ended March 31, 2011 the change in fair value was \$9.3 million (March 31, 2010 - \$15.9 million) (note 21).

During Q1, 2011 the Company paid the January 15, 2011 interest obligation of \$3.6 million in cash. During Q1, 2010 the Company paid the January 15, 2010 interest obligation by issuing convertible debentures with a face value of \$3.5 million and a fair value of \$4.6 million.

For the three months ended March 31, 2011 the Company recorded interest expense on the convertible debentures of \$3.3 million (March 31, 2010 - \$3.5 million). The interest obligation outstanding at March 31, 2011 was paid in cash on April 15, 2011.

During the three months ended March 31, 2011 convertible debentures with a face value of less than \$0.1 million were converted into 383 Stapled Units (March 31, 2010 – convertible debentures with a face value of \$0.1 million were converted into 13,124 Stapled Units) (note 20).

TimberWest Forest Corp.

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(in millions of dollars, except per Stapled Unit and per common share amounts)

15. Convertible debentures (continued)

On January 17, 2011, the Company paid the July 15, 2009 deferred distribution on the Series A Subordinate Note of the Stapled Units by issuance of 785,854 additional Stapled Units.

The terms of the convertible debenture trust indenture provide that the conversion privilege will be adjusted so that each debenture holder will be entitled to receive Stapled Units as if they had converted their convertible debentures into Stapled Units immediately prior to the deferred interest payment by issuance of Stapled Units. There is no adjustment to the conversion price unless the cumulative effect would change the conversion price by at least 1%.

The cumulative effect on the conversion price of the April 15, 2009 and the July 15, 2009 deferred interest payments paid by issuance of Stapled Units on October 15, 2010 and January 17, 2011, respectively was 1.8% and resulted in a conversion price adjustment from \$3.50 to approximately \$3.44.

Subsequent to quarter end, on April 15, 2011 the Company paid the January 15, 2009 and the October 15, 2009 deferred distribution on the Series A Subordinate Note of the Stapled Units by issuance of a total of 4,724,114 additional Stapled Units. The effect on the conversion price of these issuances of 4,724,114 Stapled Units was 4.9% and resulted in a conversion price adjustment from approximately \$3.44 to approximately \$3.27.

16. Provisions

(in millions of dollars)	March 31, 2011	December 31, 2010	January 1, 2010
Environmental remediation	\$ 3.9	\$ 3.9	\$ 3.8
Silviculture	6.7	6.4	5.1
	10.6	10.3	8.9
Less current portion	(5.2)	(5.2)	(4.5)
	\$ 5.4	\$ 5.1	\$ 4.4

17. Employee future benefits

(in millions of dollars)	March 31, 2011	December 31, 2010	January 1, 2010
Pension benefits	\$ 11.6	\$ 11.7	\$ 10.8
Non-pension benefits	28.9	28.9	33.9
	\$ 40.5	\$ 40.6	\$ 44.7

The Company, through its subsidiaries, maintains pension plans that include defined benefit and defined contribution segments available to all salaried employees and a small number of hourly retirees not covered by union pension plans. For the three months ended March 31, 2011, the Company recorded an expense in net earnings (loss) of \$0.5 million for pension benefit costs, with no additional expense recognized in other comprehensive earnings (loss) for actuarial gains (losses). For the three months ended March 31, 2010, the Company recorded an expense in net earnings (loss) of \$0.4 million for pension benefits costs, with an additional expense of \$0.3 million recognized in other comprehensive earnings (loss) for actuarial gains (losses).

During Q1, 2011, the Company made cash payments of \$0.6 million to fund current service costs for its pension plans. (Q1, 2010 - \$0.4 million).

The Company also provides non-pension benefits consisting of group life insurance and medical benefits to eligible retired employees, which the Company funds on an as-incurred basis. For the three months ended March 31, 2011, the Company recorded an expense in net earnings (loss) of \$0.4 million for non-pension benefit costs, with no additional expense recognized in other comprehensive earnings (loss) for actuarial gains (losses). For the three

TimberWest Forest Corp.

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For the three months ended March 31, 2011 & 2010

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17. Employee future benefits (continued)

months ended March 31, 2010, the Company recorded a recovery in net earnings (loss) of \$1.2 million for non-pension benefits costs, with an expense of \$0.3 million recognized in other comprehensive earnings (loss) for actuarial gains (losses).

During Q1, 2011, the Company made cash payments of \$0.4 million to fund current service costs for its non-pension benefit plans. (Q1, 2010 - \$0.5 million).

18. Stapled Unit-based payment arrangements

(a) Stapled Unit Option Plan

Under the Stapled Unit Option Plan established in 2000, the Company may grant options for the purchase of Stapled Units to directors, officers or employees who are in active service or employment with the Company or any of its subsidiaries. Options granted by the Company expire 5 years from the date of the grant and vest in equal portions over three years.

During Q1, 2011, no Stapled Unit options were granted, 10,547 Stapled Unit options were exercised, with an average exercise price of \$3.01, no Stapled Unit options were cancelled, and 176,728 Stapled Unit options expired with an average exercise price of \$13.94.

During Q1, 2010, 848,797 Stapled Unit options were granted, with an average exercise price of \$5.25, 148,181 Stapled Unit options were exercised, with an average exercise price of \$3.01, no Stapled Unit options were cancelled, and 280,134 Stapled Unit options expired with an average exercise price of \$14.85.

The Stapled Unit options are cash-settled share-based payment arrangements that are measured at fair value at grant date, at each reporting date and at settlement date with the changes in fair value recognized as employee compensation expense in net earnings (loss) in the period.

The fair value at March 31, 2011 of the 1,416,552 Stapled Unit options granted under the Stapled Unit Option Plan in 2009 and outstanding at March 31, 2011, was \$3.3 million. The fair value as at March 31, 2011 of the 855,047 Stapled Unit options granted under the Stapled Unit Option Plan in 2010 and outstanding at March 31, 2011, was \$1.3 million.

As at March 31, 2011, \$4.2 million of the Stapled Unit option fair values have been recognized in the statement of financial position, with the balance to be amortized over the remaining vesting period of the underlying Stapled Unit options.

The fair value of each option granted was estimated at March 31, 2011 using the Black-Scholes option pricing model with the following weighted average assumptions:

	March 31, 2011
Stapled Unit price on date of measurement	\$ 5.01
Weighted average exercise price	\$ 3.83
Expected volatility (weighted average volatility)	55.5%
Term to exercise (expected weighted average life)	3.3 years
Weighted average of expected dividend yield	3.6%
Risk-free interest rate (based on government bonds)	1.9%
Weighted average fair value	\$ 2.01

For the three months ended March 31, 2011, the Company recognized employee compensation expense of \$1.3 million, with a corresponding credit to the Stapled Unit option plan liability.

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For the three months ended March 31, 2011 & 2010

(in millions of dollars, except per Stapled Unit and per common share amounts)

18. Stapled Unit-based payment arrangements (continued)

(b) Distribution Equivalent Plan

For the three months ended March 31, 2011, \$0.1 million was accrued and \$0.1 million was amortized against net earnings (loss) (March 31, 2010 – no amount was accrued as no distributions were paid and no amount was amortized against earnings).

19. Deferred distribution payable

(in millions of dollars)	Distribution Rate	Due Date	Face Value	March 31, 2011	December 31, 2010	January 1, 2010
April 15, 2011 distribution	2%	October 15, 2012	\$ 4.1	\$ 3.9	\$ -	\$ -
January 15, 2011 distribution	2%	July 15, 2012	4.1	4.0	4.0	-
October 15, 2010 distribution	2%	April 15, 2012	4.0	4.0	4.0	-
July 15, 2010 distribution	2%	January 15, 2012	4.0	3.9	3.9	-
April 15, 2010 distribution	2%	October 15, 2011	3.5	3.5	3.4	-
January 15, 2010 distribution	2%	July 15, 2011	3.5	3.5	3.4	3.4
October 15, 2009 distribution	2%	April 15, 2011	3.5	3.5	3.5	3.4
July 15, 2009 distribution	2%	January 15, 2011	-	-	3.5	3.4
April 15, 2009 distribution	2%	October 15, 2010	-	-	-	3.4
January 15, 2009 distribution	12%	April 15, 2011	21.0	21.0	21.0	20.7
			\$ 47.7	\$ 47.3	\$ 46.7	\$ 34.3
Less current portion			(35.5)	(35.4)	(34.8)	(3.4)
			\$ 12.2	\$ 11.9	\$ 11.9	\$ 30.9

The Company can defer distributions on its Series A Subordinate Notes after December 31, 2008 for up to 18 months while the distribution rate is set at 2% (note 20) and defer the January 15, 2009 distribution for up to 27 months. As a result of these deferrals, the deferred distribution payable is accounted for at its fair value and the obligation is revalued at each reporting date.

On October 15, 2010, the April 15, 2009 deferred distribution of \$3.5 million was paid in kind by the issuance of 885,447 Stapled Units (note 20).

On January 17, 2011, the July 15, 2009 deferred distribution of \$3.5 million was paid in kind by the issuance of 785,854 Stapled Units (note 20).

Subsequent to quarter end, on April 15, 2011 the January 15, 2009 distribution of \$21.0 million and the October 15, 2009 deferred distribution of \$3.5 million were paid in kind by the issuance of a total of 4,724,114 Stapled Units.

20. Stapled Units

The Company issues equity by way of Stapled Units, each Stapled Unit consisting of approximately \$8.98 face amount of Series A Subordinate Notes 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 between \$0.179576131 and 1.077456788 per annum (2-12%).

The Series A Subordinate Notes are unsecured and subordinate to the revolving credit facility (note 14) and convertible debentures (note 15). The principal amount of the Series A Subordinate Notes plus accrued and unpaid

TimberWest Forest Corp.

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(in millions of dollars, except per Stapled Unit and per common share amounts)

20. Stapled Units (continued)

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 Series A Subordinate Notes are considered to be a variable rate financial liability and have been measured by the Company at amortized cost. As such, the balance of the Series A Subordinate Notes will be accreted using the effective interest rate method to face value of \$822.7 million to maturity. For the three months ended March 31, 2011 the Company recognized an accretion expense of \$2.0 million within net earnings (loss) (Q1, 2010 – \$1.6 million).

On May 18, 2010 the Company successfully raised \$60.0 million through a public Stapled Unit offering. The public offering was 12,000,000 Stapled Units at a price of \$5.00 per Stapled Unit for gross proceeds of \$60.0 million. As part of this issuance, transaction costs of \$3.2 million were deferred and offset against the Series A Subordinate Notes and are being amortized using the effective rate method over the life of the Series As Subordinate Notes until maturity.

The option to defer interest distributions to the holders of the Stapled Units for up to 18 months is an embedded derivative and is revalued at each reporting date. As at March 31, 2011, the fair value of this option is \$5.3 million (December 31, 2010 – \$6.0 million) and is recognized within Other Assets (note 13).

The option to extend the maturity date on the Series A Subordinate Notes from August 31, 2038 to August 31, 2048 is an embedded derivative and is revalued at each reporting date. As at March 31, 2011 the fair value of this option is \$0.7 million (December 31, 2010 - \$0.7 million) and is recognized within Other Assets (note 13).

Details as to issued and outstanding Stapled Units are as follows:

	Note	Number	Stapled Unit Components				
			Series A Subordinate Notes	Common Shares	Issue Costs	Total Share Capital	Total Stapled Units
Balance, January 1, 2010		77,776,632	\$ 247.1	\$ 221.5	\$ (30.5)	\$ 191.0	\$ 438.1
Issuance of Stapled Units upon:							
Public offering		12,000,000	56.3	0.5	-	0.5	56.8
Payment in kind	19	885,447	3.5	-	-	-	3.5
Stapled Unit Option exercises		155,681	0.7	-	-	-	0.7
Conversion of debentures	15	13,674	0.1	-	-	-	0.1
Accretion on Series A Subordinate Notes		-	7.4	-	-	-	7.4
Balance, December 31, 2010		90,831,434	\$ 315.1	\$ 222.0	\$ (30.5)	\$ 191.5	\$ 506.6
Balance, January 1, 2011							
Issuance of Stapled Units upon:							
Payment in kind	19	785,854	3.5	-	-	-	3.5
Stapled Unit Option exercises	18(a)	10,547	-	-	-	-	-
Conversion of debentures	15	383	-	-	-	-	-
Accretion on Series A Subordinate Notes		-	2.0	-	-	-	2.0
Balance, March 31, 2011		91,628,218	\$ 320.6	\$ 222.0	\$ (30.5)	\$ 191.5	\$ 512.1

TimberWest Forest Corp.

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21. Financial instruments

Details as to the changes in fair value of financial instruments held for trading for the three months ended March 31, 2011 as recognized in net earnings (loss) are as follows:

(in millions of dollars)	Note	Three months ended March 31	
		2011	2010
Change in fair value of:			
Convertible debentures	15	9.3	14.5
Interest payable in kind on the convertible debentures	15	-	1.4
Embedded derivatives within the Series A Subordinate Notes	13	0.7	0.8
Change in fair value of financial instruments held for trading		10.0	16.7

22. Other expense information

The Company recorded total employee compensation expense, excluding Stapled Unit-based payment arrangements and employee future benefits, for the three months ended March 31, 2011 of \$3.3 million (Q1, 2010 - \$2.6 million).

23. Subsequent events

On April 11, 2011, the Company entered into a definitive agreement under which two leading Canadian pension funds, British Columbia Investment Management Corporation ("bcIMC") and the Public Sector Pension Investment Board ("PSP Investments"), have agreed to acquire TimberWest for \$1.03 billion in cash, including assumed debt.

The transaction will proceed by way of a statutory plan of arrangement and will be subject to court approval and approval by 66 2/3% of the votes cast by unitholders at a special meeting scheduled for June 14, 2011 to consider the transaction. The transaction is subject to customary closing conditions, including regulatory approvals. In the absence of a superior proposal, the transaction is expected to close by the end of June 2011.

About TimberWest

TimberWest Forest Corp. is uniquely positioned as western Canada's largest private timber and land management company. The Company owns in fee simple approximately 327,000 hectares or 808,000 acres of private land and is in the business of selling timber products and real estate.

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



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