

Quarterly Update: B.C. Mill Status Report

Q1: January to March 2011

Attached is the latest copy of the mill status report, which provides a current list of re-opened and closed timber processing facilities in the province. For a list of active mills, please refer to the Ministry's "Major Primary Timber Processing Facilities in B.C." report available at: <http://www.for.gov.bc.ca/het/>.

Note that the previous quarterly report included January 2011 data because distribution had been delayed; and this information is repeated below.

Overview

Mill Closures:

- **One permanent closure** was announced this quarter: On January 7, Tolko Industries Ltd. announced the permanent closure of its Kelowna veneer operation, citing the reason for its decision as "a long term reduced availability of high quality peeler logs, which has been further impacted by the mountain pine beetle infestation." The mill had been closed indefinitely since October 2009 when 21 people were laid off. In addition, the permanent closure of Canfor's Clear Lake mill announced in the fall of 2010 took effect in January and affected 185 people.
- **One indefinite closure** was reported: The Mackenzie Bridgewater Mill in Surrey, which was closed temporarily in November because of small fire, has been closed since January 25 because of a major fire. Around 100 workers were laid off and the plant is unlikely to reopen until 2012.
- **Nine temporary closures** were reported during the quarter:
 - Four mills on Vancouver Island and two in Greater Vancouver were closed for several weeks in March due to a shortage of logs of the required species and grades. Western Forest Products closed their Pt Alberni APD, Somass, Cowichan Bay and Ladysmith mills; Interfor, their Acorn Mill in Delta and Teal Jones their gang mill in Surrey. The companies attributed the log shortage to poor weather affecting the harvesting and transporting of logs coupled with recently adopted company strategies to minimise log inventories.
 - The Hampton Affiliates mill in Burns Lake (previously owned by Babine Forest Products) was shut down in early March for several weeks by a large fire.
 - Mackenzie Pulp Mill lost 25% of its production from mid February and through most of March following the rupturing of a bleaching tower spilling 50 tonnes of pulp.
 - Meadow Lake Cedar was shut down when the mill failed to pass safety inspections

carried out by WorkSafe BC.

Mill Openings and Output Expansions:

- **Four mill reopenings** were announced:
 - Aspen Planers opened its Savona Mill in mid-January, which was purchased from Ainsworth Lumber who had closed the mill in June 2009.
 - Pacific Bio-Energy Corp's pellet plant in Prince George re-started in January after a three week closure caused by an explosion in mid-December.
 - Canfor announced in mid-February that, following completion of capital upgrades at its Vavenby mill (see below), the operation would restart sometime in the third quarter. Approximately 140 employees will be recalled.
 - The Sigurdson mill in the Chilcotin reopened in mid-February, after a two year closure, following its purchase by four First Nations under the name River West Forest Products.
- **Two mill output expansions** were announced:
 - West Fraser announced in mid-February that, after successful contract negotiations, their 100 Mile House lumber mill will return to five days a week production after two years of running only four days a week.
 - Conifex announced plans in mid-March to add second shifts at their Fort St. James and Mackenzie mills.
- **One company announced further progress towards re-opening a mill:**
 - Core investors in Midway, Rock Creek and Greenwood are raising further capital to purchase the Midway Mill and have announced the appointment of Vaagen Brothers Lumber, a Washington based company to operate the mill.

Mill Acquisitions:

- Fulida Group Holdings purchased the Neucel Specialty Cellulose mill in Port Alice in early February. Fulida was previously a minority shareholder.

Mill Investments:

- Canfor announced details in mid-February of \$62 million in investments it is making in three plans - \$24 million in Vavemby which will lead to the reopening of this plant and the remainder in their Polar (Bear Lake – Prince George) and Plateau (Engen-Vanderhoof) plants.
- On January 7 and March 14, the Federal Government announced the final grants under **the Pulp and Paper Green Transformation Program**. The economic objective of the program is to improve the energy efficiency of the mills.
 - Canfor's Northwood mill in Prince George, \$100.2 million.
 - Domtar's Kamloops mill - \$17.3 million.
 - Cariboo Pulp and Paper, Quesnel - \$41.5 million.

- Catalyst Paper, Pt Alberni - \$4.7 million in federal funds
- Canfor Pulp, Prince George - \$2.5m (matched by \$2.1m in provincial funds and \$4.4m in cash and in-kind contributions from Canfor).
- Harmac - \$9.0 in federal green funds, the second instalment of \$27m in federal funds earmarked for Harmac.

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SOURCES: To prepare this report, Jim and Judith review company news releases and media reports, and supplement this information with information provided by various analyst reports and government contacts. Note that this list may not be completely comprehensive, as we might miss some smaller closures and don't always catch all shift changes.