

Quarterly Update: B.C. Mill Status Report

Q2'2011: April to June 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 the latest available 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/>.

Overview

The mill scene in Q2 has been a mix of investments and openings in some areas and by some companies, a wait-and-see approach in others and closures in some small pockets. This mix has reflected the continued growth in the China market for lumber and logs, high demand and prices for kraft and dissolving sulphite pulp and in the European market for pellets, while the US lumber and panel markets reflect continuing weakness in the US economy and low housing starts. A late spring and high snow packs also limited harvesting in some areas and resulted in some temporary mill closures.

Mill Closures:

- **One indefinite closure** was reported: Springer Creek Forest Products in Slocan closed their lumber mill indefinitely and 60 workers were stood down. The closure was attributed to poor lumber prices, the high Canadian dollar, high transportation costs and loss of markets for black liquor (sawdust and bark) to pulp mills close by in the US and Canada.
- **At least six temporary closures** occurred during the quarter.
 - Tolko closed a number of panel product mills for short periods citing the continued poor Canadian market conditions generated by the cold wet spring in many localities and consequently lower than expected construction activities. These included its Soda Creek (Lakeview), Lumby, Armstrong and Hefley Creek mills.
 - Two mills were also closed temporarily due to fires- Pinnacle Pellet plant in Armstrong and North Enderby Cedar planer mill.

Mill Openings and Output Expansions:

- **Three mill reopenings** were announced;
 - The community owned Midway Mill was officially opened in early April and when the operators of the mill, Vaagen Brothers, commence operations in the fall it will employ around 35 workers.
 - A previously closed sawmill in Kitwanga was acquired and re-opened in early June by Pacific Bioenergy, thanks in part to the demand from China for BC wood. The

- company also plans to build a white pellet facility on an adjacent site to utilise chips and sawdust from the lumber mill. Forty five people are expected to be employed in the lumber mill.
- The Harrop-Proctor Mill was fully operational and officially opened in June utilising logs from the local H-P Community Forest established in 1999.
 - **A number of mill output expansions** were announced:
 - Conifex added a second shift at their Ft St James lumber mill.
 - A number of pulp mills such as Harmac added shifts to take advantage of high kraft and dissolving sulphite pulp prices.
 - A joint venture agreement has been signed between six northern St'at'imc communities and a Korean company led by Korean Wood Pellet Corp (KWC) for construction of a pellet mill in Lillooet. The mill is scheduled to be producing by early 2012 and will employ up to 70 people.
 - Pinnacle Pellet's new plant in Burns Lake was in the commissioning stage in April and production was set to be ramped up in May.
 - **Other companies continue to assess options for shuttered mills** while eyeing the malaise in the US housing market. Canfor continues to evaluate what to do with several mills that are currently closed indefinitely including its Rustad lumber mill in Prince George and its plywood and OSB plants in Fort Nelson. The same applies to Winton Global's lumber mill in Prince George.

Mill Acquisitions

- West Fraser sold Terrace Sawmill along with Crown timber licences to ROC Holdings Ltd. ROC Holdings is a subsidiary of a Chinese company.

Mill Investments:

- Biomass Secure Power plans to build two wood pellet mills in BC and offers have been made on sites in Terrace and Meziadin. Construction is to begin in August or September to meet European contracts commencing in 2012.
- Structurlam's new facility in Okanagan Falls, which opened in June, has been built to manufacture cross laminated timber (CLT) with contributions from the provincial government (\$2.5), the Federal government (\$3.2m) along with \$7.5m from Structurlam. The facility has the capacity to produce 7.5 million board feet of CLT on a one shift basis.
- Conifex is investing \$50 million in a power cogeneration facility at its mills in Mackenzie. Under an agreement signed with BC Hydro, Conifex is expected to supply at least 200 gigawatt-hours (gw-h) of electricity to the grid annually, as well as generate an additional 30 gw-h to power the Mackenzie operations without the need to take power from the grid.

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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.