

Quarterly Update: B.C. Mill Status Report

Q3'2011: July to September 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., 2009" report available at: <http://www.for.gov.bc.ca/het/>.

Overview

Q3 has seen upgrades, reopening and additional shifts added by a small number of companies and a few temporary closures, largely for maintenance, by others. Overall it has been a quiet quarter. This reflects receding, near-future, prospects for recovery in the US housing market and, more recently, the increased risks of a decline in the growth rate of Asian lumber demands and a double-dip global recession.

Mill Closures:

- **One permanent closure** was announced:
 - The Sinclair Group announced in late September that they will permanently close their Winton Global lumber mill sites in Bear Lake, Prince George due to the on-going stagnation of the US housing and lumber market. The plants were closed indefinitely in June 2008 and permanent closure effective October 31st will result in severance payments to the 134 permanent employees.
- **At least seven temporary closures** occurred during the quarter.
 - Canfor shut down one of two lines at its Northwood pulp mill for two months to upgrade a recovery boiler (early August to mid October).
 - Zhejiang Fulida closed its Neucel Specialty Cellulose mill in Port Alice in mid August for a month to undertake a major upgrade.
 - Domtar closed its Kamloops pulp mill for maintenance in mid August.
 - Tolko made a number of temporary mill closures in the quarter citing poor market conditions, wet harvesting conditions, rising log prices and maintenance needs. These included;
 - A two week shutdown due to wet conditions of its Lumby and Armstrong operations and the dropping of a shift at its Hefley Creek plant in early July affecting about 260 employees.
 - A brief closure of its Lakeview mill in Williams Lake in early August for maintenance.

Mill Openings and Output Expansions:

- **One major mill reopening** occurred;
 - Canfor restarted its sawmill in Vavenby on September 6 after a two year closure and a \$24-million upgrade announced in February. The restart of the mill will see 96 jobs created by the end of the quarter and a further associated 30 jobs in logging and trucking.
- **One planned mill opening** was announced:
 - Gitxsan Forest Enterprises Inc. (GFEI) is working to purchase and reopen the former Kispiox Forest Products mill in Hazelton.
- **One mill output expansion** was announced:
 - Western Forest Products reopened the second line at its Ladysmith lumber mill ending a three year closure and adding 8 employees. Western cited increased demand for the mill's hemlock lumber products in China as the reason for the reopening.
- **Other companies continue to assess options for shuttered mills** while eyeing the malaise in the US housing market, the reduced Chinese growth forecasts and risks of recession.

Mill Acquisitions and Disposals

- West Fraser sold its Eurocan Kitimat deep sea wharf and related assets to Kitimat LNG, a consortium headed by Apache Canada which plans to build a \$3-billion liquefied natural gas plant in Kitimat.

Mill Investments:

- Major boiler and other upgrades partially funded by the Federal Government's Pulp and Paper Green Transformation Program prompted the earlier noted temporary closures of Canfor's Northwood pulp mill and Zhejiang Fulida's Port Alice specialty cellulose pulp mill as well as closure of a line at Howe Sound Pulp and Paper from mid May to late August. All will lead to improvements in energy efficiency, reductions in costs and reductions in emissions.
- Canfor announced it will upgrade the planer at the Prince George sawmill during a shutdown in December.

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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.