The Forest Industry in B.C.
Putting it in Context

Presentation to the Kamloops Community Dinner

June 13, 2007

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President and Chief Executive Officer, COFI

COFI TOP 10

1. ESTABLISHED 1960
2. THREE OFFICES
    - Vancouver
    - Prince George
    - Kelowna
3. LINKAGES THROUGH CWEP TO OFFICES IN:
    - Tokyo
    - Shanghai
    - Beijing
    - Seoul

COFI TOP 10 (Cont'd.)

4. PROVIDES FOLLOWING SERVICES

- Quality Control – Including Grader Training and Certification
- Government, Public and Community Relations – Provincial and Regional
- Market Access and Development on a Global Scale
- Issues Management Support, Advice and Advocacy Related to:
  - Forestry
  - Aboriginal Affairs
  - Occupational Health and Safety
  - Environment
  - Emerging Issues of Concern

COFI TOP 10 (Cont'd.)

5. BUDGET: $3.8 MILLION

6. EMPLOYEES: 28

7. CORPORATE MEMBERS: 29

8. LIMITED MEMBERS: 21

9. ANNUAL CONVENTION: KELOWNA, APRIL 17-18, 2008

10. URL: www.cofi.org

OUTLINE

1. GLOBAL PICTURE
2. BC PICTURE
3. FOUR EXTERNAL CHALLENGES
    - FX
    - MPB
    - SLA 2006
    - CLIMATE CHANGE

Global Top 100 Forest Companies*

	2005	2004	2003	2002	2001
Sales	$340	$328	$319	$295	$302
Net Earnings	$9	$14	$7.3	$3.5	$6.8
ROCE	4.5%	5.3%	4.2%	4.3%	4.6%

***Forest, Paper & Packaging: 11/100 are Canadian; 27/100 are U.S.**

Source: PricewaterhouseCoopers; USD billions

Industry Characteristics

- **Extremely capital intensive**
- **Fragmented industry**
- **Commodity business**
- **Chronic underperformer (single digit ROCE)**
- **Currency fluctuations**

U.S. Top 10 Softwood Lumber Producers

	No. of Mills	Production (million bf)
1. Weyerhaeuser	22	4,700
2. International Paper	19	2,310
3. Sierra-Pacific Industries	12	1,030
4. Georgia-Pacific	20	1,600
5. Hampton Affiliates	7	1,300
6. Stimson Lumber	12	1,106
7. Simpson Timber	6	1,220
8. Temple-Inland	7	963
9. Potlatch	6	941
10. RSG Forest Products	6	800
Total Top 20	147	20,929
Total U.S.		38,152
% of USA		54.9%

Source: Wood Markets Report – International Wood Markets Group Inc.

Canada Top 10 Softwood Lumber Producers

	No. of Mills	Production (million bf)
1. Canfor	15	4,460
2. West Fraser Timber	17	3,797
3. Tolko	10	2,421
4. Abitibi-Consolidated	21	1,942
5. Tembec	13	1,730
6. Weyerhaeuser Canada	8	1,550
7. Buchanan Lumber	7	1,200
8. Domtar	9	1,125
9. Western	10	1,000
10. Bowater	7	867
Total Top 20	148	24,755
Total Canada		33,592
% of Canada		73.7%

Source: Wood Markets Report – International Wood Markets Group Inc.

Top 10 N.A. Lumber Producers After 2006 Mergers & Acquisitions *(million bf)*

Rank	Company	Before	After*
1	Weyerhaeuser	6,360	6,360
2	West Fraser	4,172	5,982
3	Canfor	4,801	4,801
4	Abitibi/Bowater[1]	1,942	2,955
5	Tolko	2,421	2,421
6	Georgia-Pacific[2]	1,600	1,920
7	Tembec	1,730	1,730
8	Hampton Affiliates	1,300	1,635
9	Sierra-Pacific Ind.	1,630	1,630
10	Buchanan Lumber[2]	1,200	1,200
	Total Top 10		30,634
	Total North America		71,744
	Top 10 as a % of N.A.		43%

***Volumes based on full year of operation**

[1] Abitibi volumes only included before merger

[2] Estimate

Source: Wood Markets Report – Mar. 2007

BC Financial Results – By Product
($ millions)

	2005	2004	2003	2002	2001
Sales					
Lumber[1]	$7,511	$8,198	$6,201	$6,922	$6,655
Plywood and Veneer[1]	996	1,334	1,071	945	799
Market Pulp	2,551	2,575	2,419	2,300	2,483
Uncoated Groundwood Papers	1,467	1,492	1,295	1,244	1,625
Other Operations[2]	5,179	5,273	3,390	4,208	4,191
Total Sales	17,704	18,872	14,376	15,619	15,753
Less: Wood Chips Consumed in BC	(735)	(843)	(634)	(592)	(681)
Net Sales	**$16,969**	**$18,029**	**$13,742**	**$15,027**	**$15,072**
Net Earnings (Loss)	**$329**	**$2,216**	**$337**	**$98**	**$(89)**

1 Includes wood chip by-product revenues.

2 Includes CTMP, de-inked market pulp, linerboard, kraft paper, coated paper, oriented strand board (OSB), medium density fibreboard (MDF), other composite boards, tissue, shakes and shingles, and unallocated corporate.

Source: PriceWaterhouseCoopers

Selected Industry Statistics – BC
($ millions)

	2005	2004	2003	2002	2001
Employment					
Direct	77,350	78,000	78,300	81,400	85,600
Indirect	154,700	156,000	156,600	162,800	171,700
Payments to Gov't.	$3,265	$3,732	$2,758	$3,345	$3,027
CAPX	$925	$850	$759	$721	$655
Depreciation	$948	$1,009	$991	$950	$1,012

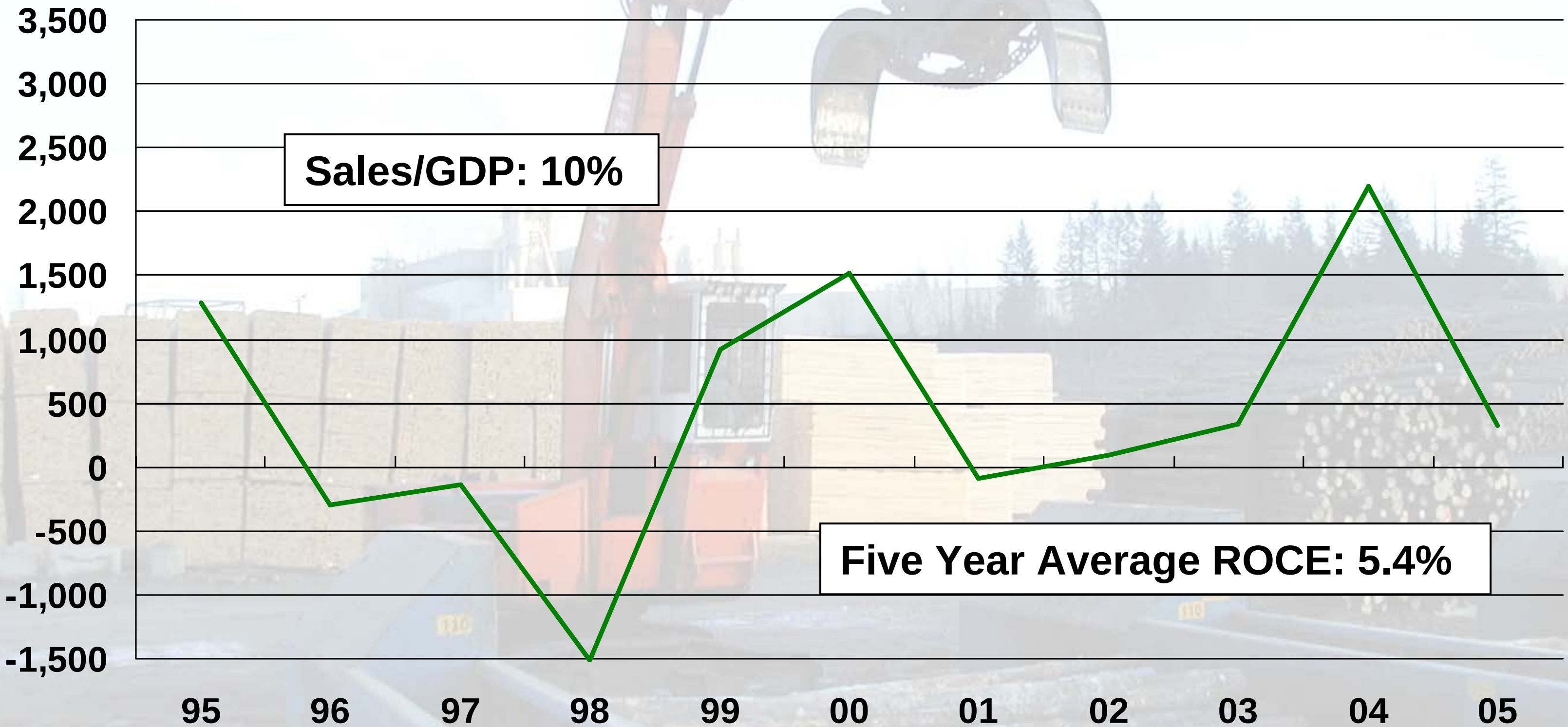
Employee Compensation and Benefits *($ millions, except as noted)*

	2005	2004	2003	2002	2001
Compensation	$4,232	$4,456	$4,137	$4,383	$4,284
Employee Benefits[1]	1,443	1,496	1,353	1,352	1,279
Total Compensation and Benefits	$5,675	$5.952	$5,490	$5,735	$5,563
Benefits as Percent of Compensation	34.1%	33.6%	32.7%	30.8%	29.9%
Average Compensation ($ per Employee)	$54,715	$57,125	$52,835	$53,843	$50,047
Average Benefits ($ per Employee)	18,655	19,174	17,275	16,604	14,942
Compensation and Benefits ($ per Employee)	$73,370	$76,299	$70,110	$70,447	$64,989

[1] Includes vacation pay for hourly employees.

Source: PriceWaterhouseCoopers

BC Operations
Net Earnings (Loss)



Source: PricewaterhouseCoopers, CAD millions

Estimated British Columbia Primary Log Use – 2005

Log Use By:	COAST			INTERIOR			PROVINCE		
	Number of Mills	Estimated Volume Used	Per Cent	Number of Mills	Estimated Volume Used	Per Cent	Number of Mills	Estimated Volume Used	Per Cent
		(000 m³)			(000 m³)			(000 m³)	
Lumber Mills	75	11,933	52.7%	118	51,901	84.9%	193	63,833	76.2%
Veneer/OSB Mills	4	2,035	9.0%	19	6,191	10.1%	23	8,226	9.8%
Pulp Mill Wood Rooms	10	1,200	5.3%	13	766	1.3%	23	1,966	2.3%
Chip Mills	7	2,141	9.5%	6	1,329	2.2%	13	3,470	4.1%
Shake & Shingle Mills	35	808	3.6%	4	17	0.0%	39	825	1.0%
Other Mills	22	146	0.6%	60	511	0.8%	82	656	0.8%
Log Exports		4,383	19.4%		386	0.6%		4,769	5.7%
Total Use	153	22,645	100.0%	220	61,101	100.0%	373	83,746	100.0%
2005 Harvest		23,859			62,810			86,669	
Less Waste and Rejects (estimate)								1,759	
Plus Log Imports								40	
Total Available								84,950	
Difference								1,203	1.4%

Source: Ministry of Forests and Range, Economics and Trade Branch

British Columbia Lumber Mill Summary Statistics for Medium and Large Size Mills

		1990 …	1995 …	2000	2001	2002	2003	2004	2005	% change 1990-2005
COAST										
Number of Mills		43	38	36	34	29	28	27	29	-33%
Total Capacity	billion board feet per year	4.2	3.8	4.0	3.7	3.3	3.2	3.2	3.4	-20%
Total Output	billion board feet per year	3.8	3.3	3.1	2.5	2.4	2.3	2.6	2.6	-31%
Total Input	million cubic metres per year	17.1	15.0	13.8	11.3	10.7	10.1	11.3	11.2	-34%
Average Capacity	million board feet per mill per year	99	100	111	109	113	116	118	117	19%
Capacity Utilization	output divided by capacity	89%	88%	77%	67%	74%	72%	81%	76%	-14%
Lumber Recovery Factor	'000 board feet per cubic metre	0.220	0.223	0.222	0.222	0.228	0.233	0.229	0.231	5%

Mills with capacity over 40 million board feet per year.

Source: Ministry of Forests and Range, Economics and Trade Branch

British Columbia Lumber Mill Summary Statistics for Medium and Large Size Mills

		1990 …	1995 …	2000	2001	2002	2003	2004	2005	% change 1990-2005
INTERIOR										
Number of Mills		88	83	77	78	73	70	71	71	-19%
Total Capacity	billion board feet per year	10.7	10.4	10.8	11.3	11.6	11.9	12.6	12.9	21%
Total Output	billion board feet per year	10.0	10.0	10.5	10.3	11.8	11.9	13.4	14.3	43%
Total Input	million cubic metres per year	42.2	40.9	40.0	38.1	43.4	43.1	47.6	50.7	20%
Average Capacity	million board feet per mill per year	121	125	140	145	159	170	177	181	50%
Capacity Utilization	output divided by capacity	93%	96%	98%	90%	102%	100%	107%	111%	19%
Lumber Recovery Factor	'000 board feet per cubic metre	0.236	0.245	0.263	0.269	0.273	0.275	0.281	0.282	19%

Mills with capacity over 40 million board feet per year.

Source: Ministry of Forests and Range, Economics and Trade Branch

British Columbia Lumber Mill Summary Statistics for Medium and Large Size Mills

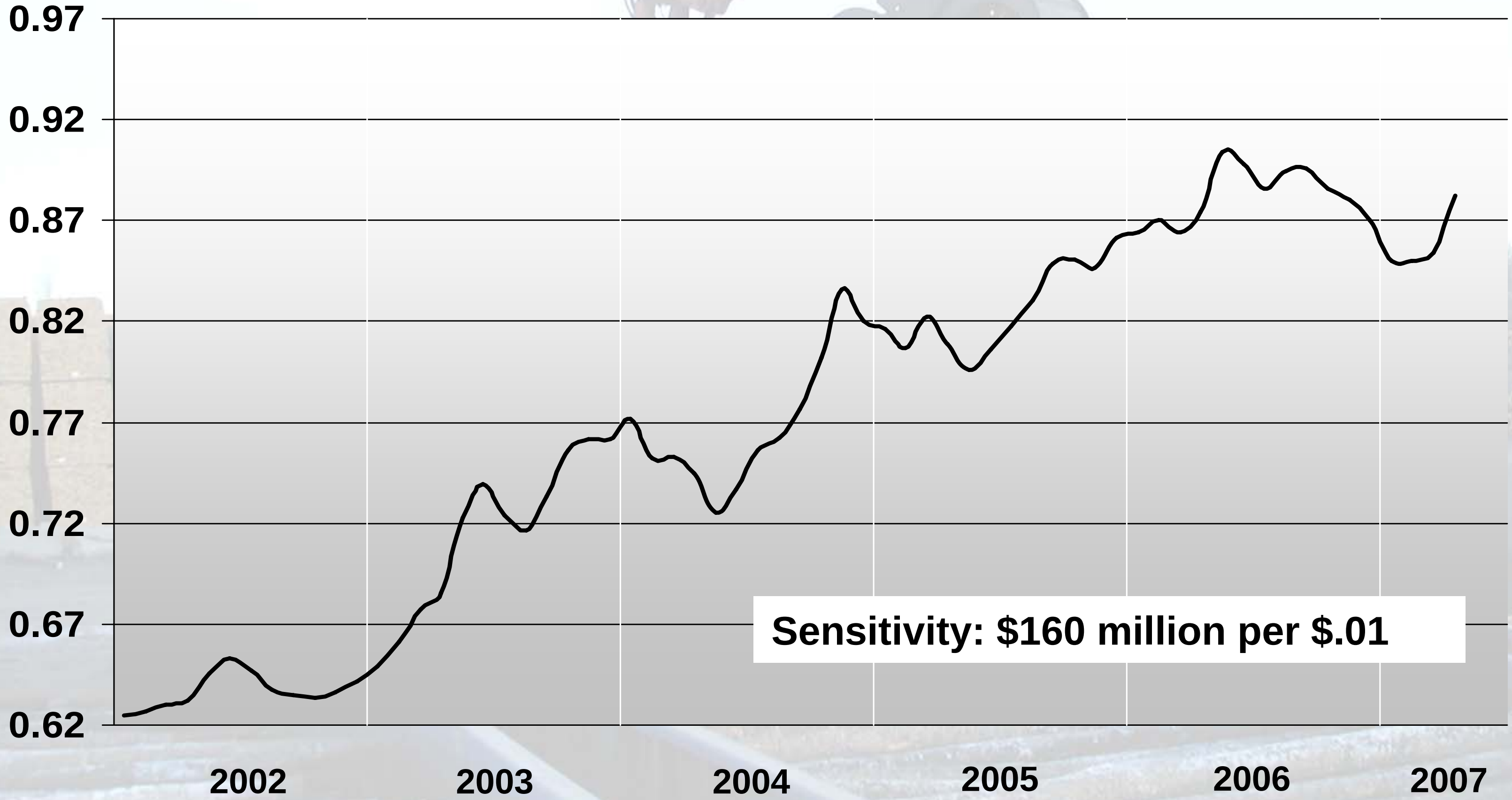
		1990 …	1995 …	2000	2001	2002	2003	2004	2005	% change 1990-2005
PROVINCE										
Number of Mills		131	121	113	112	102	98	98	100	-24%
Total Capacity	billion board feet per year	14.9	14.2	14.7	15.1	14.9	15.1	15.8	16.3	9%
Total Output	billion board feet per year	13.7	13.3	13.6	12.8	14.3	14.2	16.0	16.9	23%
Total Input	million cubic metres per year	59.2	55.8	53.8	49.4	54.0	53.1	58.9	61.9	5%
Average Capacity	million board feet per mill per year	114	117	130	134	146	154	161	163	43%
Capacity Utilization	output divided by capacity	92%	94%	92%	85%	96%	94%	101%	104%	12%
Lumber Recovery Factor	'000 board feet per cubic metre	0.232	0.239	0.253	0.258	0.264	0.267	0.271	0.272	17%

Mills with capacity over 40 million board feet per year.

Source: Ministry of Forests and Range, Economics and Trade Branch

Canadian Dollar vs. US Dollar

(C$ per US$)



Source: Bank of Canada; USD per CAD; Monthly Average Rates

Mountain Pine Beetle

- Extremely serious environmental epidemic
- Cumulative volume impacted about 580 million m^3
- Aggressive mitigation could limit short/mid term AAC fall to 5-25% in areas with greater than 50% pine
- Actions to mitigate depth and duration of impacts include:
  - Getting at green attack stands early
  - Extend economic shelf life of older stands
    - Capital investment in mills
    - Diversity of use for heavily damaged older stands
  - Rehabilitation and reforestation

<u>Bottom Line</u>

BC will remain a stable/secure supply of high quality lumber

SLA 2006

The Deal

- Tax or quota in low markets
- 80% of deposits returned
- About US$4.5 billion including interest
- US$1 billion to US
  - $500 to Coalition
  - $450 to meritorious projects
  - $50 to Bi-National Committee
- 7 year term plus 2 year renewal
- Surge penalty
- Technical Working Groups
- Anti-Circumvention Clause
- BC Timber Pricing System more sensitive to market forces
- Devil in the details!

Export Charge Rate

Random Lengths Composite for Agreement (US$/mbf)	BC Export Charge Rate
Over 355	No Export Charge
336-355	5%
316-335	10%
315 or under	15%

Export Charge Rate

Month	Random Lengths Composite for Agreement (US$/mbf)	BC Export Charge Rate
October 2006	299	15%
November 2006	283	15%
December 2006	277	15%
January 2007	278	15%
February 2007	293	15%
March 2007	291	15%
April 2007	289	15%
May 2007	279	15%

British Columbia Monthly Surge Limits *(million board feet)*

	Expected US Consumption	BC Coast Surge Limit	BC Coast Actual Exports	BC Interior Surge Limit	BC Interior Actual Exports
October 2006	5,707	104		1,094	
October 2006 pro-rated	3,682	67	55	706	505
November 2006	5,026	92	69	964	733
December 2006	4,734	95	57	908	687
January 2007	4,875	77	63	935	825
February 2007	4,641	104	80	890	672
March 2007	5,080	94	50	974	952
April 2007	5,365	139	82	1,029	941
May 2007	5,252	115	67	1,007	889
June 2007 (1-13)	5,022	116	45	963	336

* Export levels are based on export permit data and are subject to change prior to end of monthly correction period.

Climate Change

- Evidenced by recent weather patterns
- Concern that worst is yet to come
- Public support for action
- Personal & Corporate responsibility
- Industry has good track record
  - Reduction in GHG 44% since 1990
  - Certification
  - Forestry practices second to none
- But industry challenged by:
  - Wood & paper use negatively linked to climate change
  - Green building codes
  - High level of expectation
  - New attacks on customers