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

Presentation to Western Wood Products Association
Prince George

February 21, 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: 24
9. ANNUAL CONVENTION: PRINCE GEORGE, APRIL 11-13, 2007
10. URL: www.cofi.org

OUTLINE

1. GLOBAL PICTURE
2. BC PICTURE
3. THREE EXTERNAL CHALLENGES
   - FX
   - MPB
   - SLA 2006

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	25	5,306
2. International Paper	19	2,350
3. Georgia-Pacific	23	1,730
4. Sierra-Pacific Industries	11	1,637
5. Hampton Affiliates	5	1,450
6. Stimson Lumber	12	1,239
7. Simpson Timber	5	1,180
8. Temple-Inland	7	940
9. Potlatch	6	930
10. RSG Forest Products	5	875
Total Top 30	174	24,575
Total U.S.		40,700
% of USA		60.4%

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

Canada Top 10 Softwood Lumber Producers

	No. of Mills	Production (million bf)
1. Canfor	15	4,624
2. West Fraser Timber	18	4,212
3. Tolko	10	2,307
4. Abitibi-Consolidated	21	2,108
5. Weyerhaeuser Canada	8	1,680
6. Tembec	13	1,549
7. Domtar	11	1,200
8. Buchanan Lumber	7	1,100
9. Bowater	9	900
10. JD Irving	8	773
Total Top 30	166	26,948
Total Canada		34,500
% of Canada		78.1%

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

Top 10 N.A. Softwood Lumber Producers *(million bf)*

Rank	Company	Prod'n. 2005	% of N.A. 2005
1	Weyerhaeuser	5,306	7.1%
2	Canfor	4,624	6.1%
3	West Fraser	4,212	5.6%
4	International Paper	2,350	3.1%
5	Tolko	2,307	3.1%
6	Abitibi-Consolidated	2,108	2.8%
7	G-P (Koch Industries)	1,730	2.3%
8	Sierra-Pacific	1,637	2.2%
9	Tembec	1,549	2.1%
10	Hampton Affiliates	1,450	1.9%
	Total Top 10	27,273	36.3%
	Others	47,927	63.7%
	Total North America	75,200	100%

Source: Wood Markets Report – Oct. 2006

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

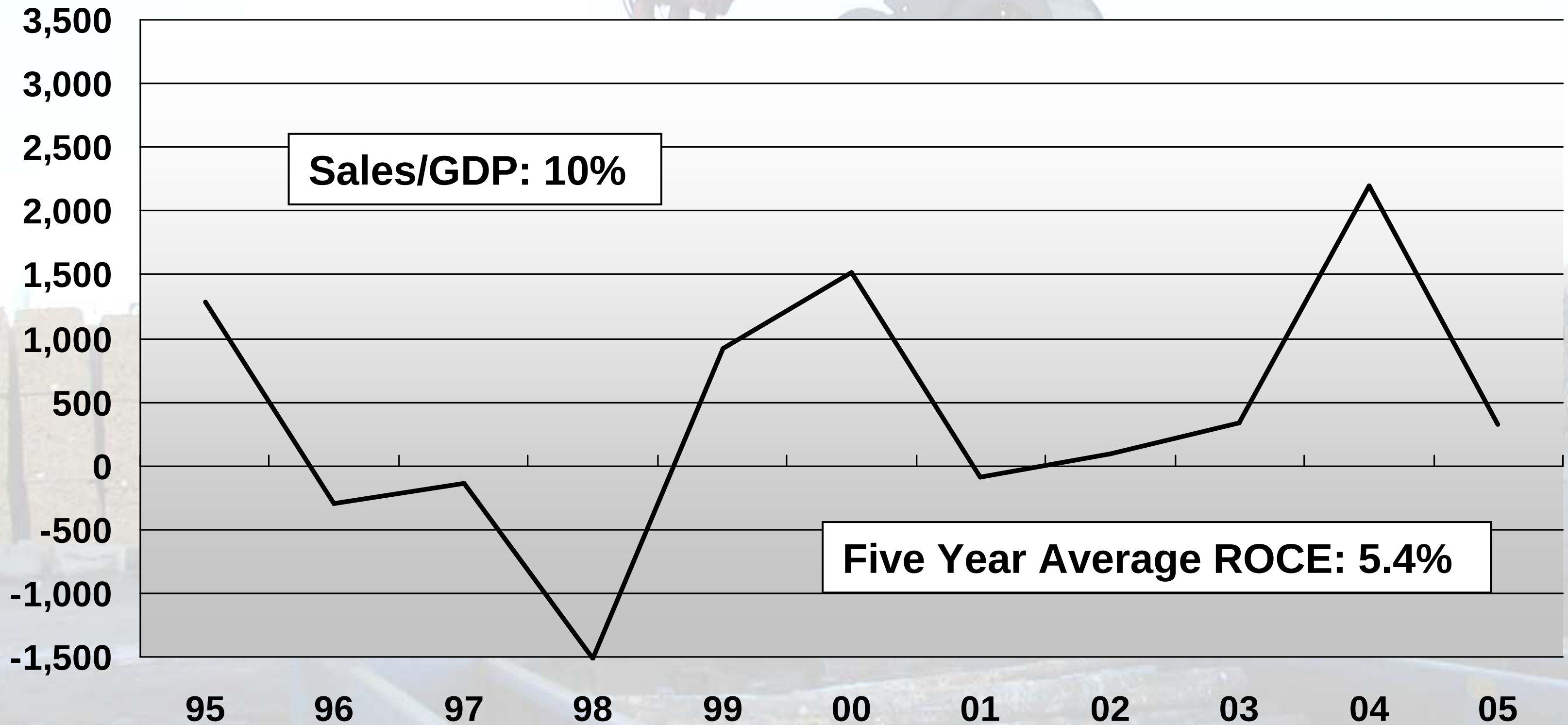
Employee Compensation and Benefits *($ millions, except as noted)*

	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

Estimates of Product Recovery from Lumber Mills – 2005

	Units	Coast	Interior	Province
Number of Mills		75	118	193
Log Input	('000 m^3)	11,933	51,901	63,833
Lumber Output				
Lumber Output (nominal measure)	(mfbm)	2,722	14,515	17,237
Lumber Recovery Factor	(mfbm/m^3)	0.228	0.280	0.270
Conversion Factor *	(m^3/mfbm)	1.835	1.737	1.752
= Actual Volume of Lumber Produced	('000 m^3)	4,994	25,213	30,207
As Per Cent of Log Input	(%)	42%	49%	47%
By Product Chip Output (from Lumber Mills)				
By Product Chip Output	(000 bdu)	1,769	7,059	8,828
By Product Chip Recovery Factor	(bdu/'000 m^3)	148	136	138
Conversion Factor	(m^3/bdu)	2.62	2.78	2.75
= Volume of Chips Produced	('000 m^3)	4,634	19,625	24,258
As Per Cent of Log Input	(%)	39%	38%	38%
Sawdust and Shavings - Estimated Volume	('000 m^3)	2,304	7,063	9,368
As Per Cent of Log Input	(%)	19%	14%	15%

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

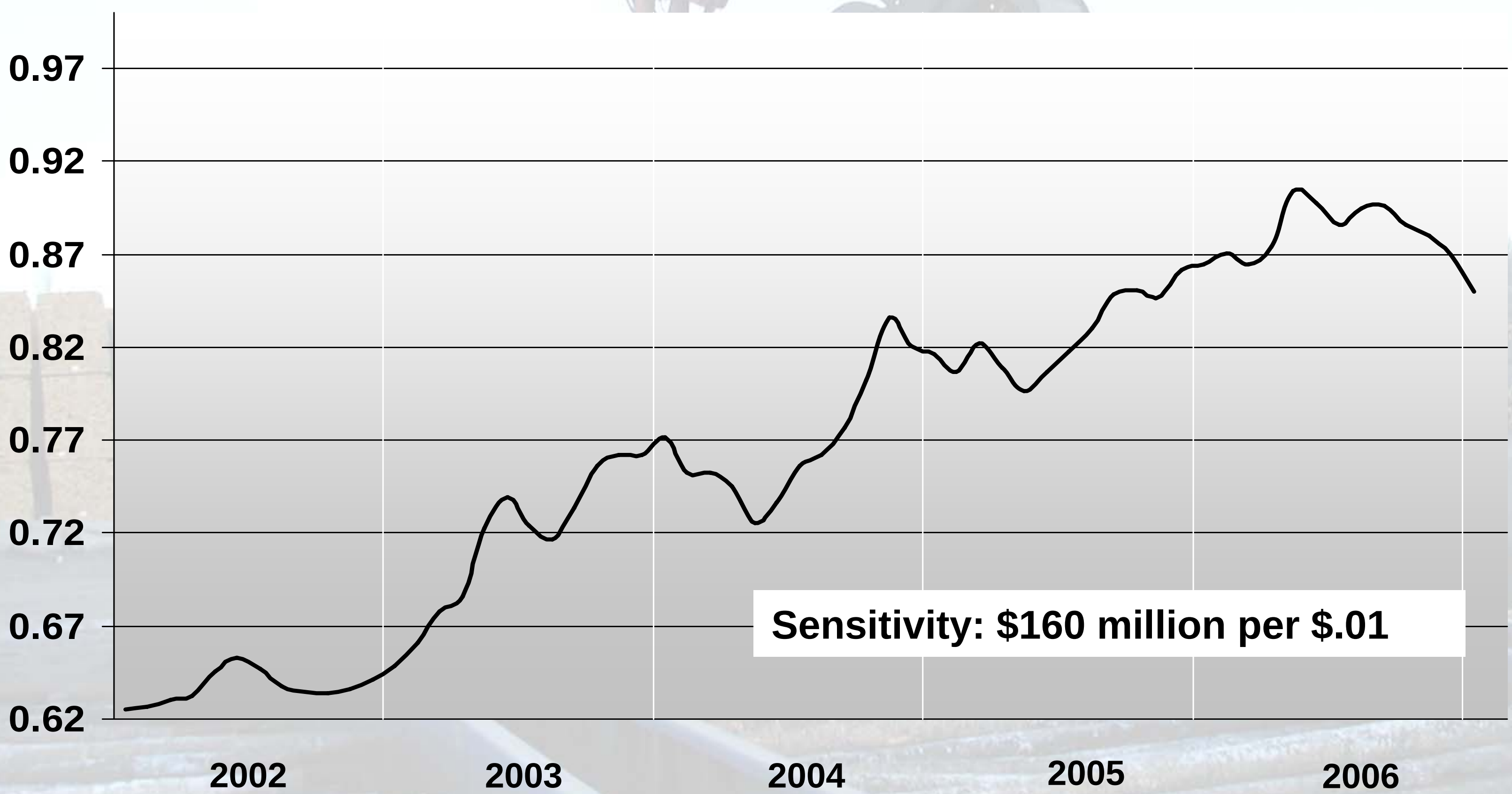
		1990 …	1995 …	2000	2001	2002	2003	2004	2005	% change 1990-2005
PROVINCE										
Number of Mills		131	121	113	112	102	98	98	100	-24%
Total Capacity	billion board feet per year	14.9	14.2	14.7	15.1	14.9	15.1	15.8	16.3	9%
Total Output	billion board feet per year	13.7	13.3	13.6	12.8	14.3	14.2	16.0	16.9	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%

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	58	706	502
November 2006	5,026	92	71	964	715
December 2006	4,734	95	57	908	664
January 2007	4,875	77	61	935	770
February 2007**	4,641	104	44	890	377

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

**As of February 19, 2007.