



TimberWest Forest Corp
Export Market Access: Critical for Long Term Success

2013 Canada Japan Trade Symposium
April 25, 2013
Toronto, Ontario

Log Export Restrictions

Export markets are critical for TimberWest:

Market	Average Price/m ³	% of Sales	Average Cost	Average Profit/Loss
Domestic	\$64	49%	\$71	-\$7
U.S.	\$60	5%	\$71	-\$11
Japan	\$107	20%	\$71	\$36
China	\$90	18%	\$71	\$19
Korea	\$99	7%	\$71	\$27

*2012 Financial Results

- Export restrictions (Notice 102) provide domestic buyers with preferential access to supply
- Export restrictions provide domestic buyers with deeply discounted pricing



Log Export Restrictions

Surplus Test

- Federal and Provincial policy requires that exports are surplus to domestic needs (surplus test)
- Proposed log exports must be cut, transported, sorted, boomed prior to being advertised on a government website
- A government appointed committee (TEAC) meets once per month to evaluate domestic offers to purchase under surplus test
- Any domestic consumer can “block” an export proposal and offer a “reasonable” domestic price
- “Reasonable” domestic pricing does not include any reference to current lumber or international log pricing
- TEAC recommends to Ministers export sales as surplus to domestic requirements



Log Export Restrictions

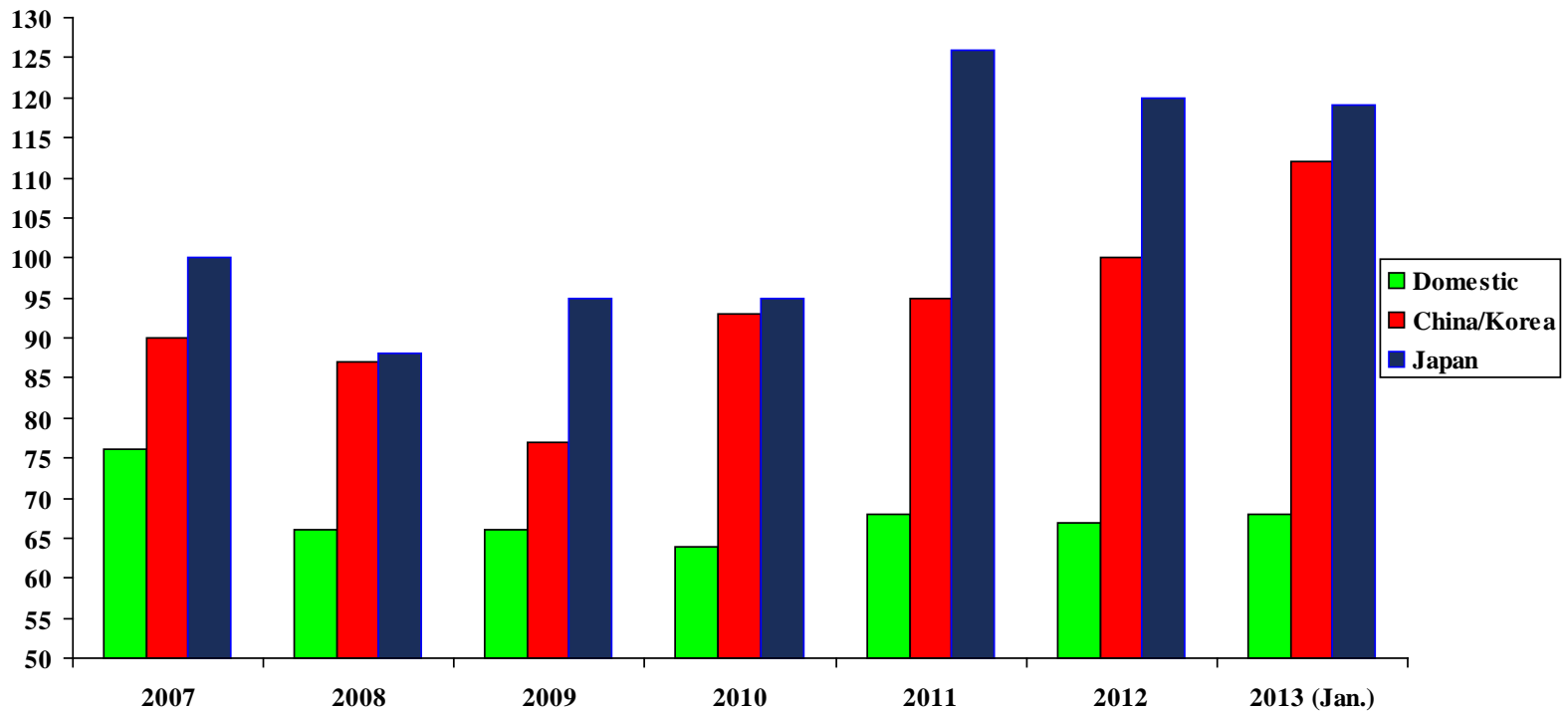
Consequences for Timberland Owners

- Price for product is unknown when deciding to harvest/or not
- 95% of cost to produce and deliver product incurred prior to allocation to market is determined through government regulated surplus test
- Process provides domestic buyer enormous power to “negotiate” price
- Domestic price artificially depressed
- Domestic/export price differentials significant (e.g. \$65 versus \$120/m³ for 1Q13 HemBal standard sort)
- Domestic sales often occur at a loss (domestic price is less than delivered costs)
- Result is a massive transfer/destruction of wealth from private timberland owners to domestic mills

Pricing

HemBal Standard (12"++)

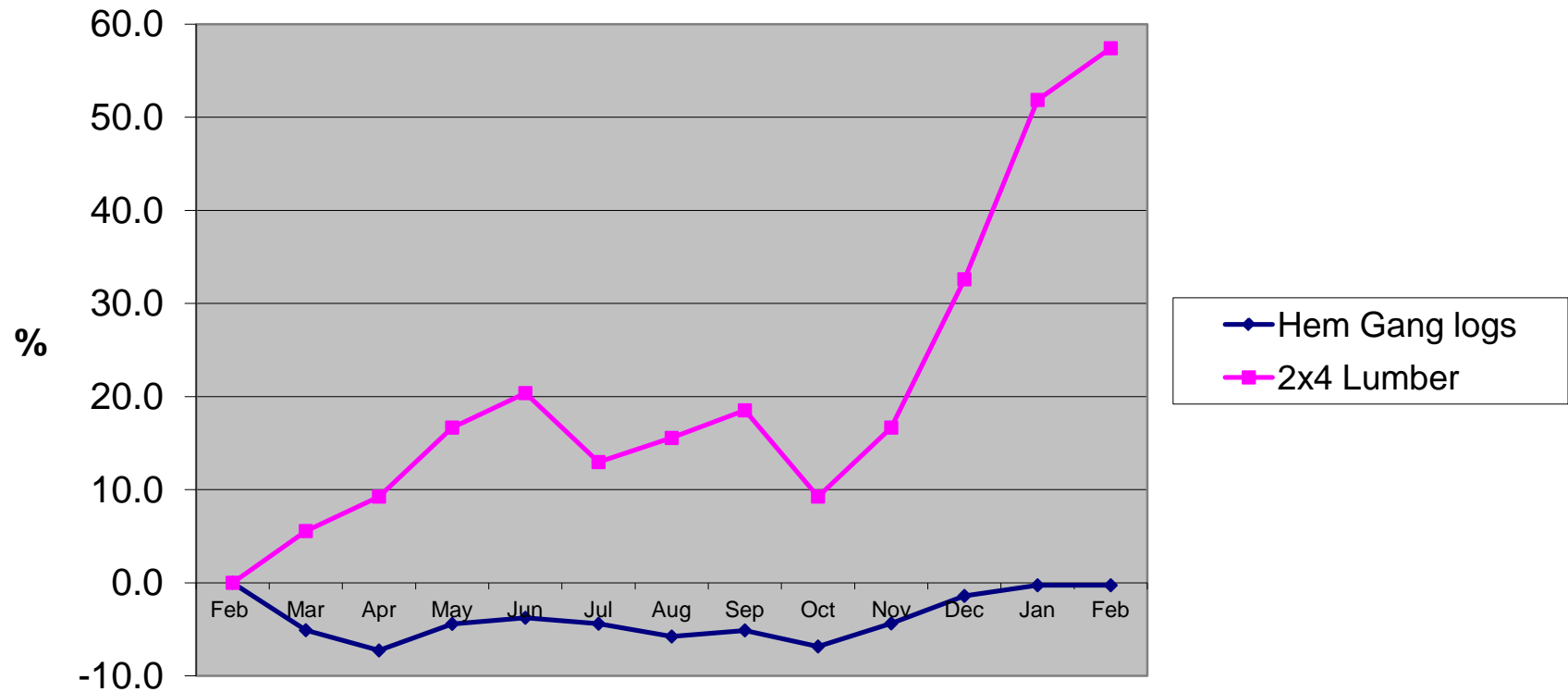
Cdn. \$/m³



Source: TimberWest Sales Data

Hemlock Price Changes

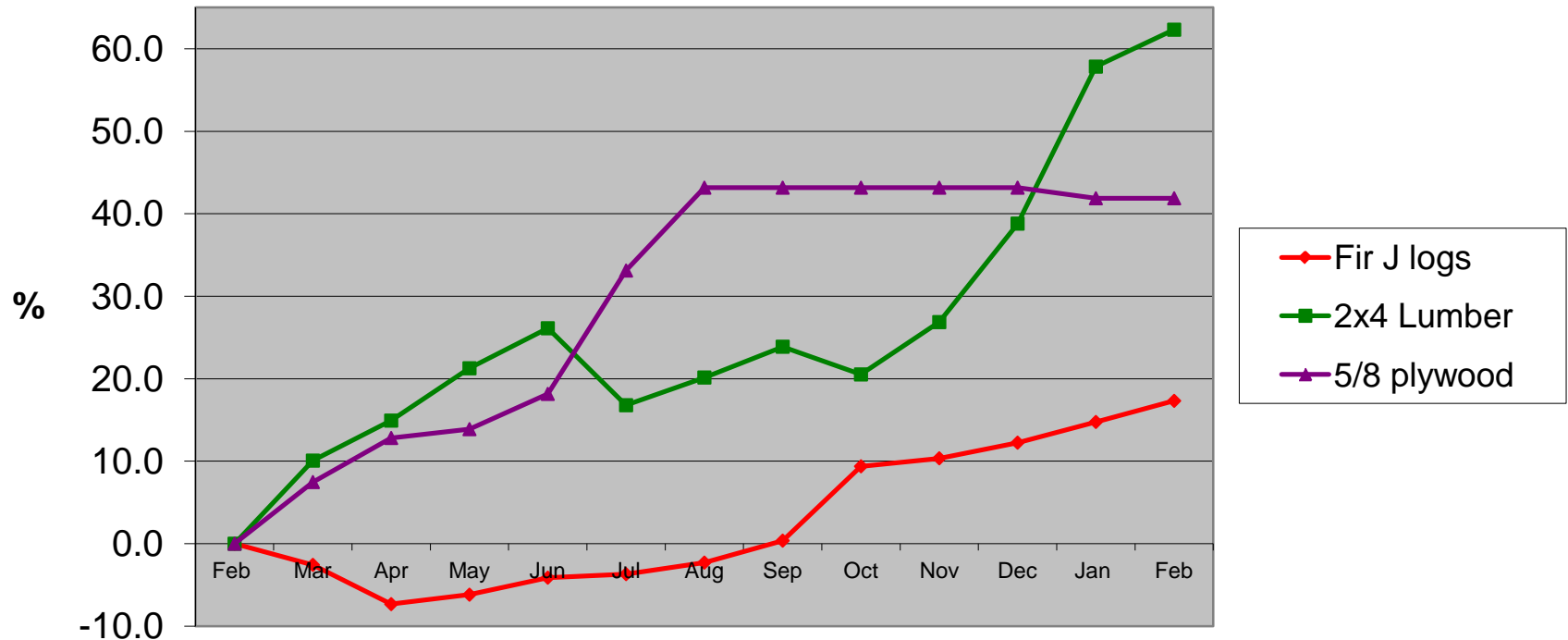
Lumber v Domestic Log Prices Percent Price Change Feb 2012-2013



Source: BC MOFLNRO, Random Lengths

Fir Price Changes

Lumber/Plywood v Domestic Log Prices Percent Price Change Feb 2012 - 2013



Source: BC MOFLNRO, Random Lengths



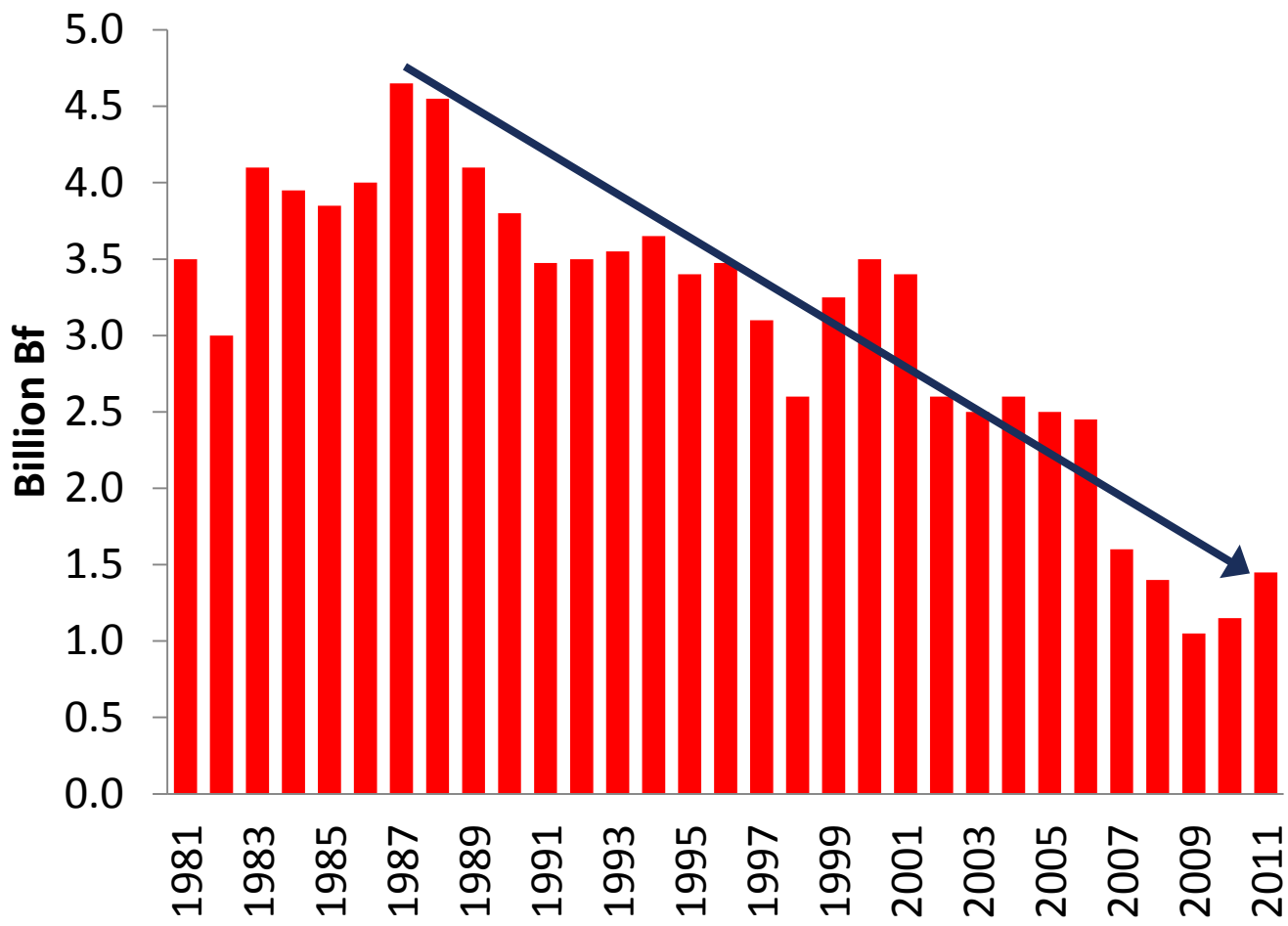
Log Export Restrictions

Coastal B.C. Log Exports – Cause or Response?

- Sawmill industry is challenged – high operating costs, high labour costs, species mix, size mix, etc.*
- Coastal sawmill industry is in structural decline
- No meaningful new investment in 20+ years
- Production has declined from 3.7 to 1.3 billion bf in last 20 years
- Industry is undercapitalized, high cost and inefficient versus international competition*
- U.S. has targeted B.C. lumber industry for subsidies (stumpage rates and log export restrictions)

* BC Competition Council, Wood Products Industry Advisory Committee, March 2006

B.C Coast Softwood Lumber Production



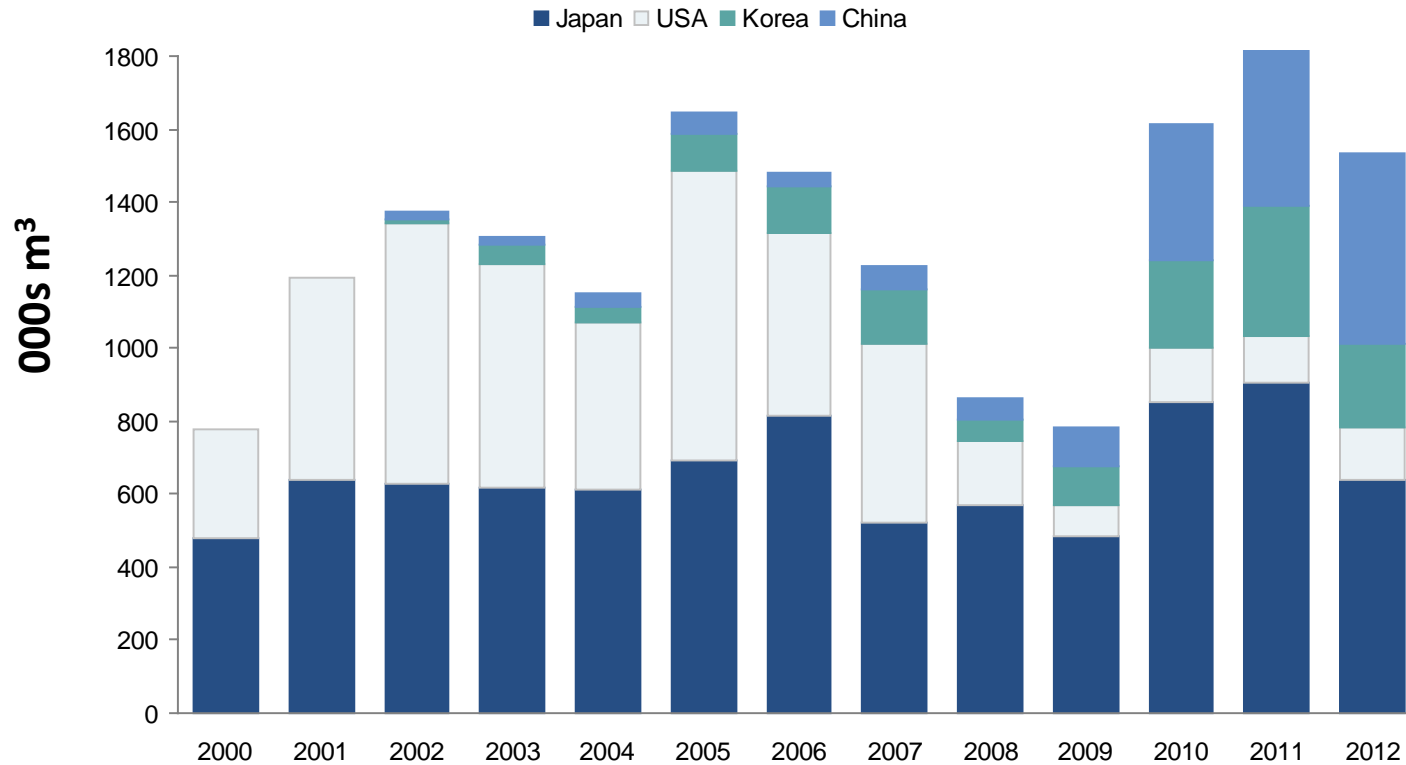
Last 20 years:
32 Mill Closures
~2.6 BBf capacity
closures

Today:
37 Sawmills
~2.1 BBf capacity

Source: WOOD Markets / Stats Canada

Customer Diversity

TimberWest Log Exports by Region



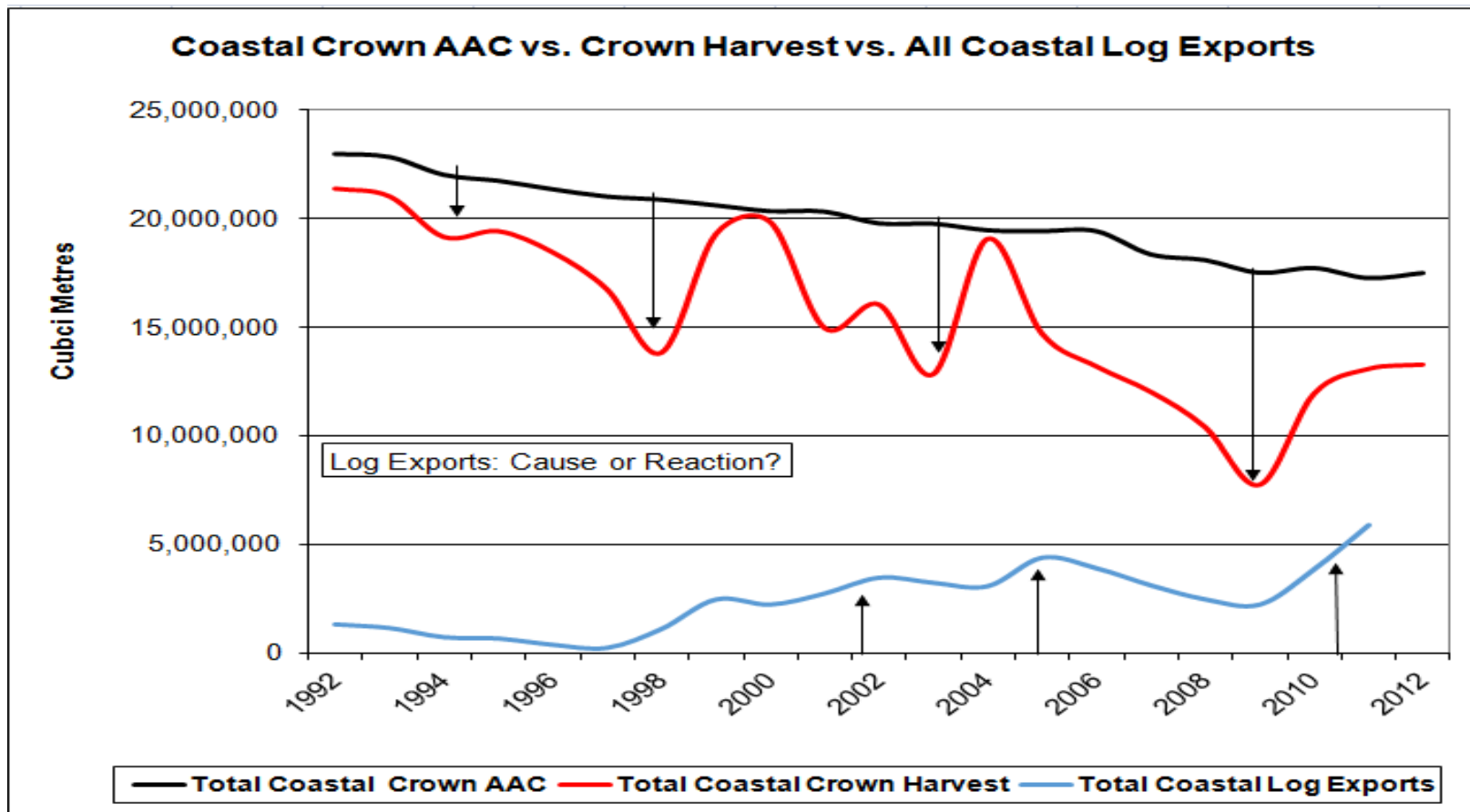


Log Export Restrictions

- Collapse of U.S. market has resulted in B.C. lumber and timber industry turning to Asia
- Emergence of Asian markets saved Coastal B.C. industry
- China, Japan and Korea are premium markets
- Access to premium markets is critical to support logging on Coastal B.C. – no profit at domestic “market” prices
- Reduced log exports will reduce logging activity and put 15,000 jobs in Coastal B.C. at risk*

* Coast Forest Products Association

Coastal AAC vs. Harvest



Source: MDT Ltd.



Log Export Restrictions

Are Log Export Restrictions *Sustainable?*

- Export price premiums drive logging activity economics and supply that is available to domestic mills at deeply discounted prices
- Eliminating or Reducing Log Exports:
 - will reduce logging activity
 - will reduce jobs and economic activity
 - will reduce log supply available to domestic mills

Sustainable?

- Federal Government pushing a mandate of market access and free trade agreements
- Federal trade negotiations will focus on protected and subsidized industries. Trade partners will want market based access to Canadian supply

Sustainable?