

The British Columbia Interior Forest Industry in a Post-Mountain Pine Beetle World

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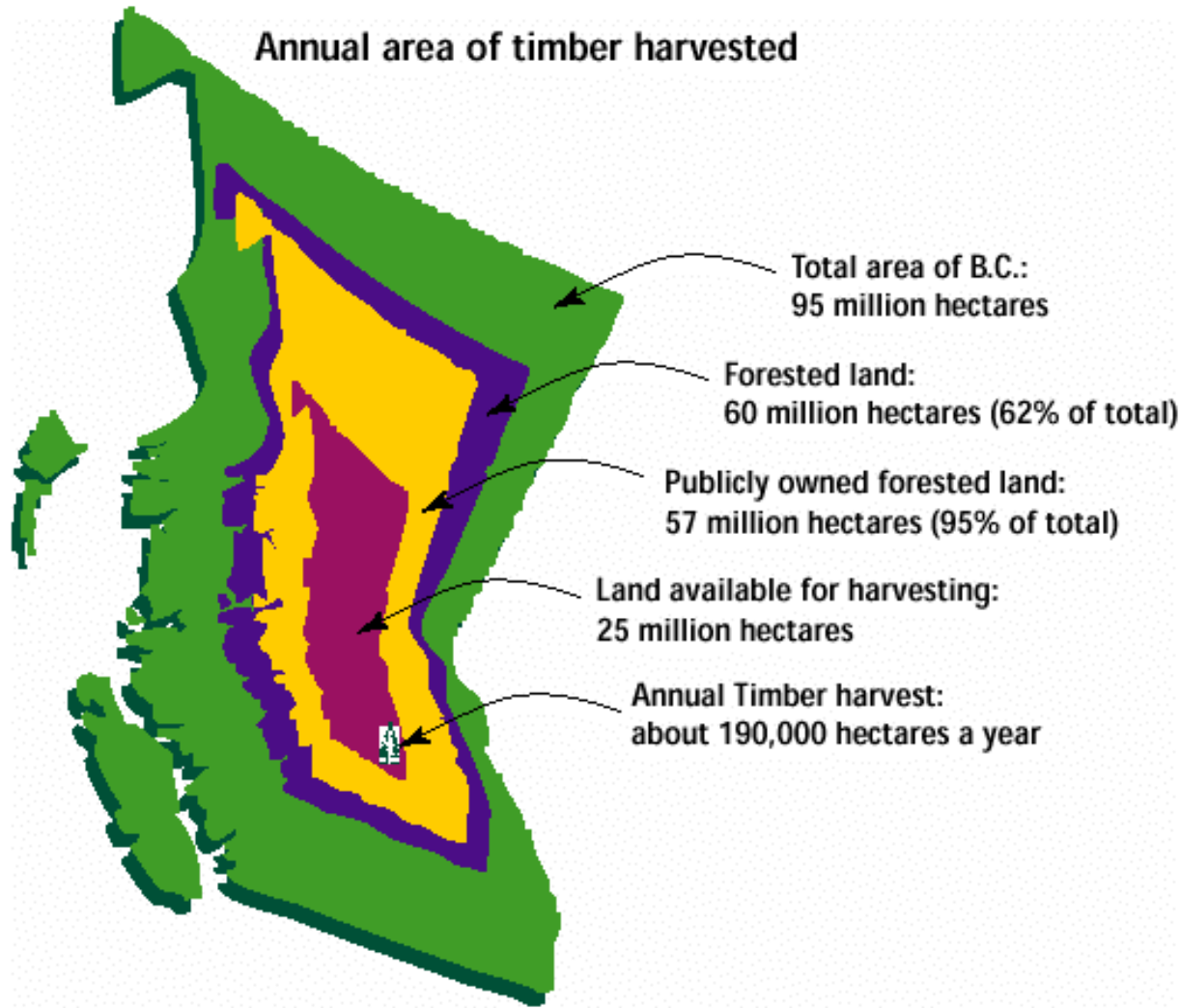
Items for Discussion

- BC Interior Timber Supply Forecast
- Canfor's Response
- Summary Perspectives

A stylized, light gray line drawing of a tree trunk and branches, positioned on the left side of the slide. The trunk is composed of several vertical lines of varying heights, and the branches are represented by curved lines extending from the top of the trunk.

BC Interior Timber Supply Forecast

BC Interior Timber Supply Forecast



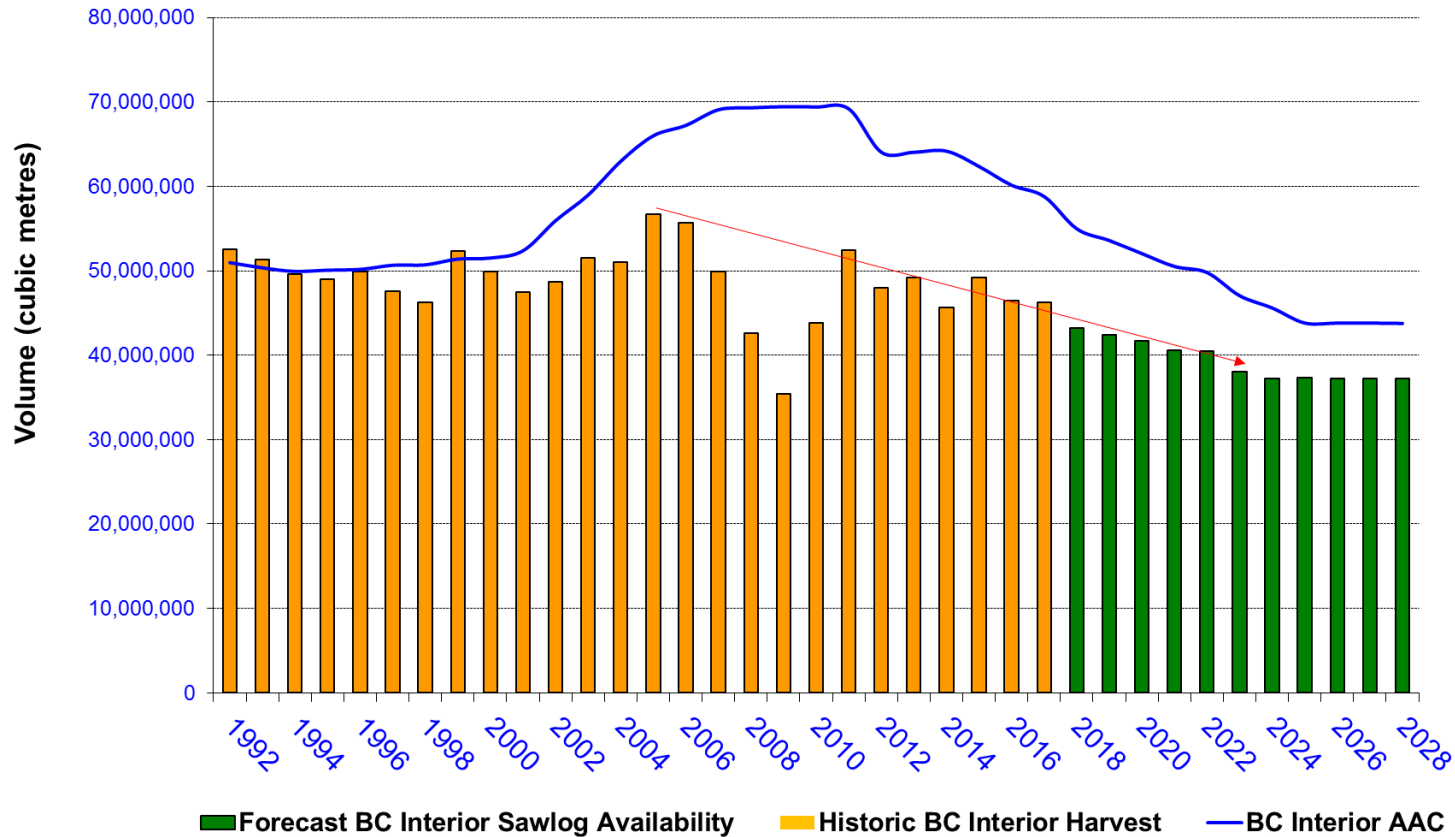
Timber Supply in BC

- The provincial AAC is typically set every 10 years and considers the following:
 - Information about the land base that includes forest composition and management; e.g. silviculture, abnormal infestation, rate of growth and forest composition
 - Objectives for the land base, the region and the province; e.g. environmental, economic, social

BC Interior Timber Supply Forecast

AAC and Sawlog Supply Trend

Historic Trend in Interior British Columbia Crown AAC and Annual Harvest



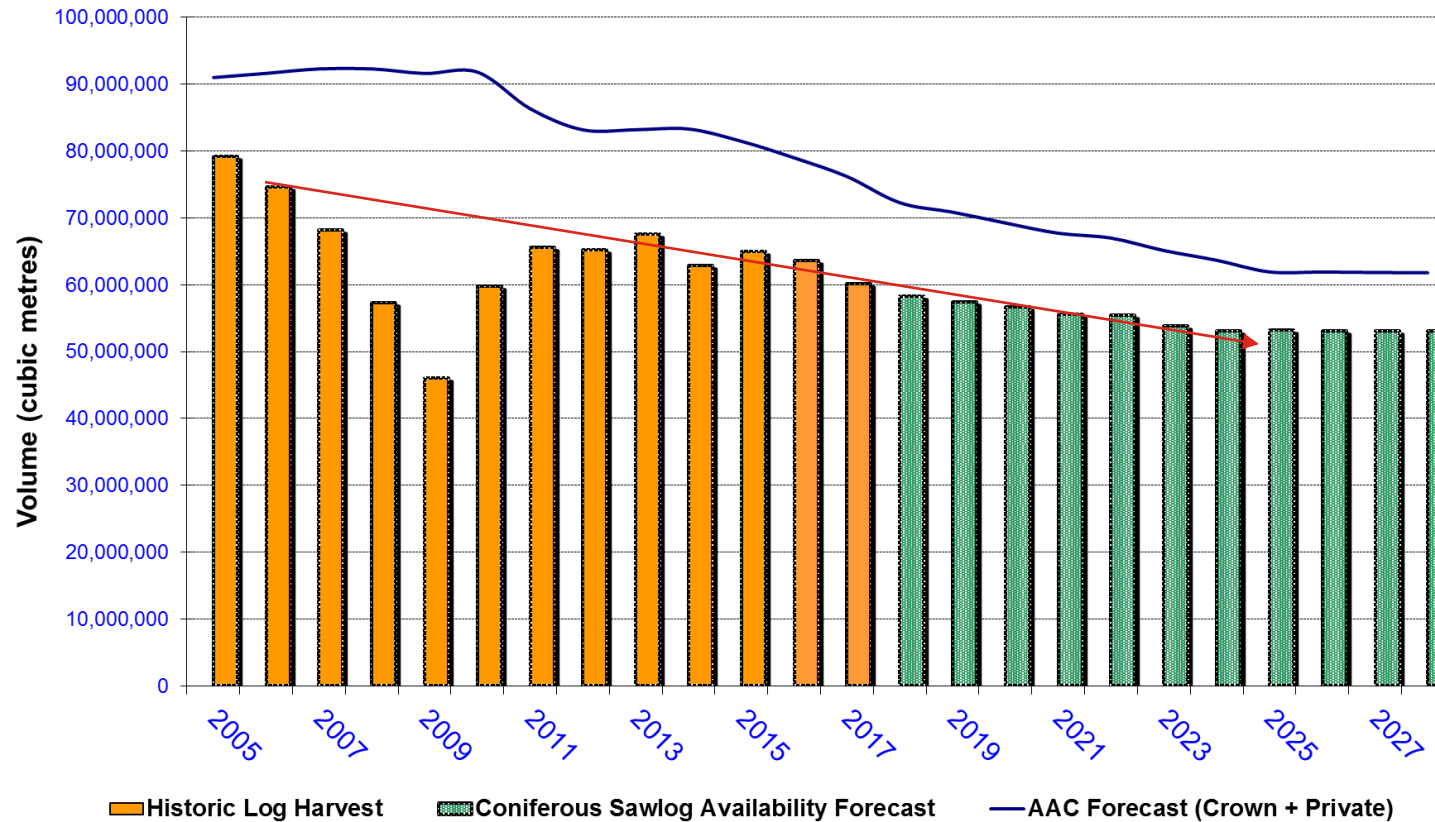
The Trend

- Prior to the MPB the BC Interior AAC was at about 50 million cubic metres
- AAC increased to support salvage and industry increased capacity to capture opportunity
- 2009 economic recession reduced harvest and prevented dead timber salvage
- AAC reduction started in 2011 and will continue through 2025 as salvage ends
- Sawlog supply in mid-term will be 20% less than pre-MPB

BC Interior Timber Supply Forecast

Decreasing AAC and Sawlog Supply

British Columbia Coniferous Sawlog Availability Forecast vs AAC (Crown + Private)

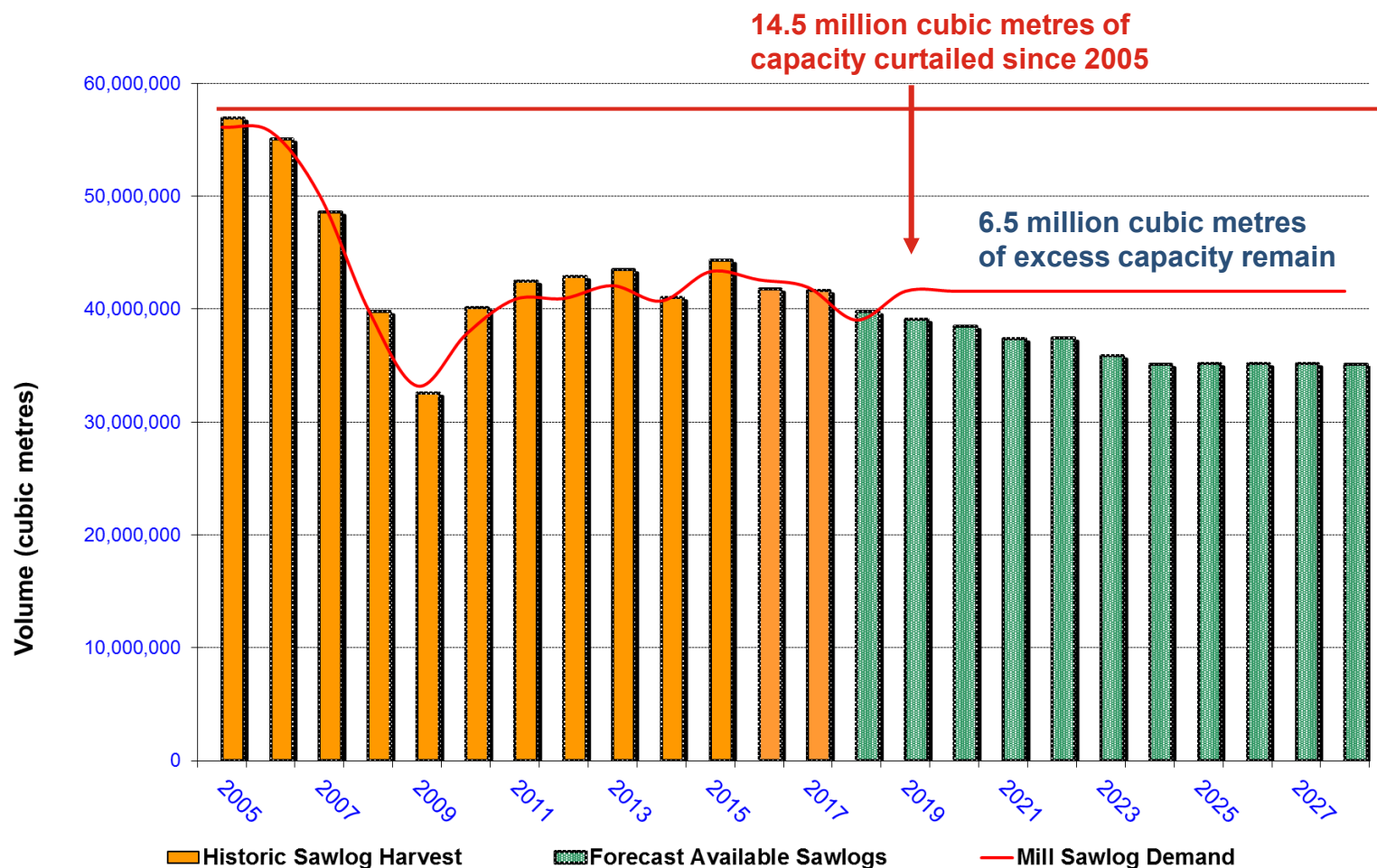


Implications of AAC Reductions

- Post-recession peak sawlog harvest occurred in 2013
- Harvest has dropped steadily since
- Since 2005: 26 sawlog consuming mills have closed (lumber and veneer)
- More mill closures are forecast as sawlog supply reductions continue

BC Interior Timber Supply Forecast

Forecast Sawlog Supply vs Demand at Full Mill Capacities



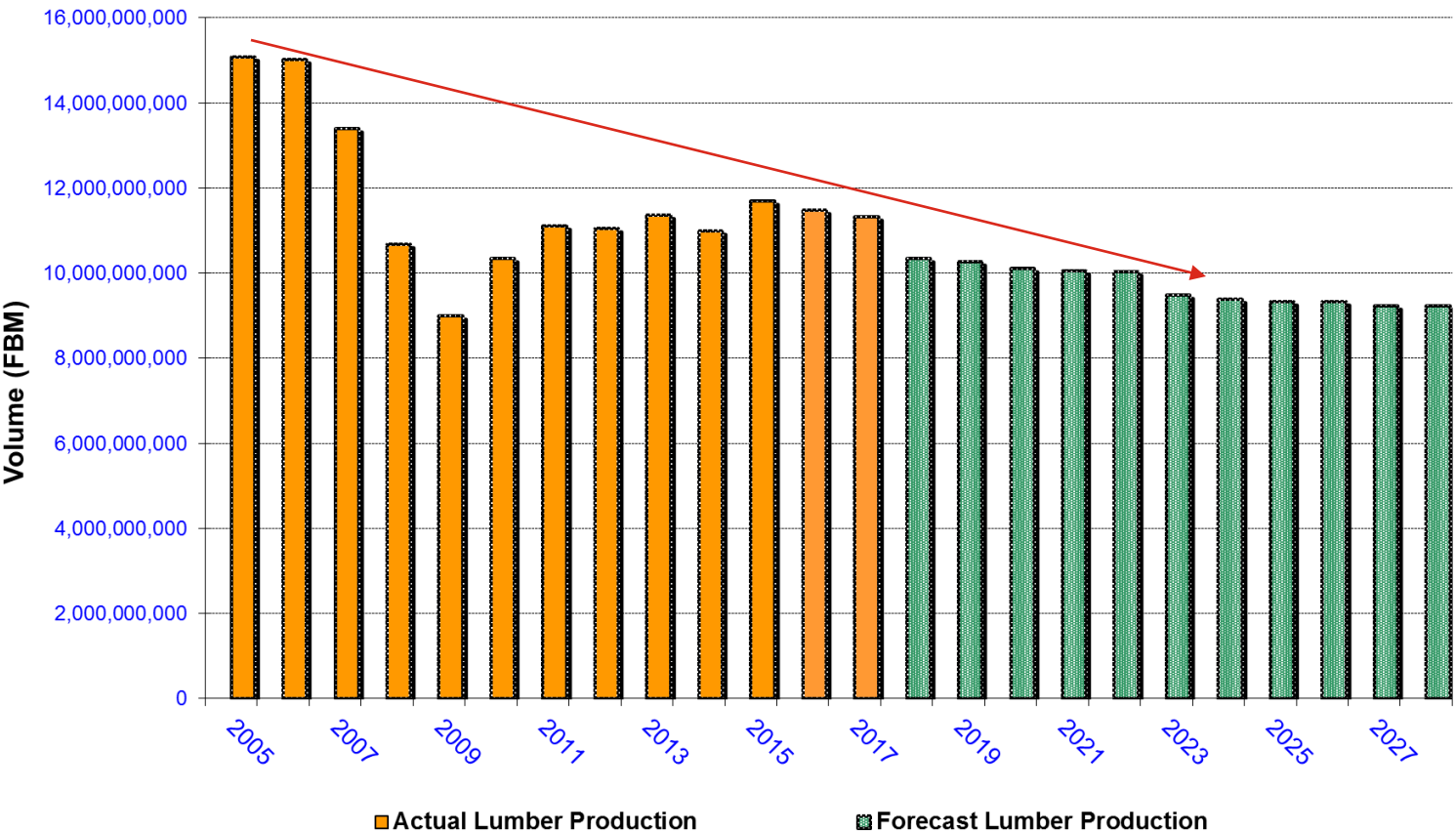
Implications

- Since 2005: 14.5 million cubic metres of sawlog demand has been curtailed
- Forecast sawlog supply suggests up to 6.5 million cubic metres of capacity must be eliminated to bring supply and demand into balance in the mid-term

BC Interior Timber Supply Forecast

Decreasing Sawlog Supply = Decreased Lumber Production

British Columbia Interior Lumber Production



Implications

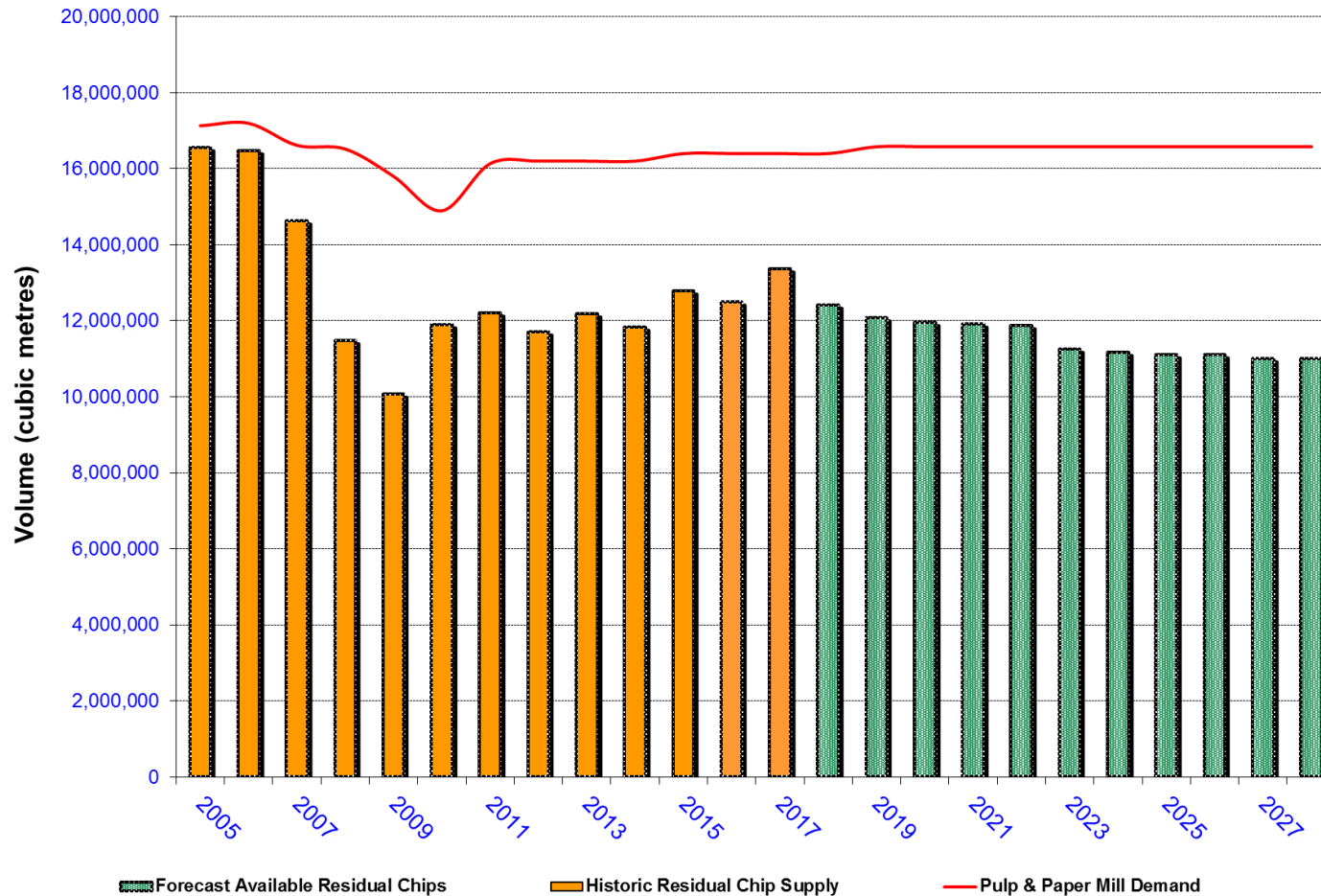
- Pre-Beetle lumber production peaked at 15 BFBM in 2006
- Post-recession peak lumber production was in 2015 at 11.7 BFBM (22% reduction)
- 2017 lumber production was 11.3 BFBM
- Mid-term forecast lumber production is 9.2 BFBM (39% reduction from 2006 and 18% reduction from 2017 production)



BC Interior Chip Supply Forecast

Implications of Mill Closures on Residual Chip Supply

British Columbia Interior Chip Supply Vs Demand

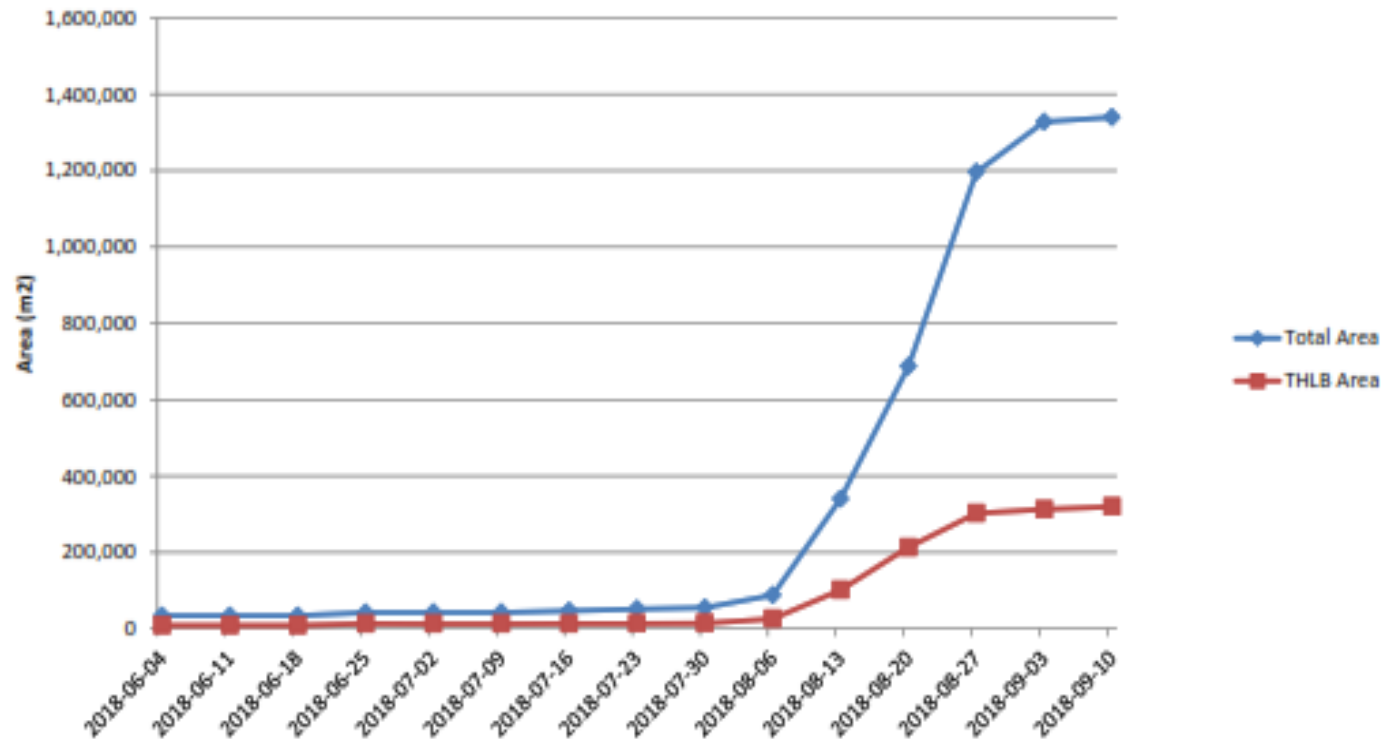


Implications

- Sawmill and veneer plant closures have significantly reduced residual chip supply
- All mills now more reliant on pulp logs
- Forecast shortfall in residual chips is 33% of total chip demand in mid-term

Other Risks to Timber Supply Forecast

Fire Growth 2018 Timeline – Area Within Perimeters



BC Wildfires – Area Burned

- 2018 – 1,350,088 ha. (09/14/2018)
- 2017 – 1,216,053 ha
- 1958 – 855,968 ha
- 1961 – 483,097 ha
- 2014 – 368,786 ha
- 10-Yr. AVG – 257,470 ha.

First Nations in British Columbia



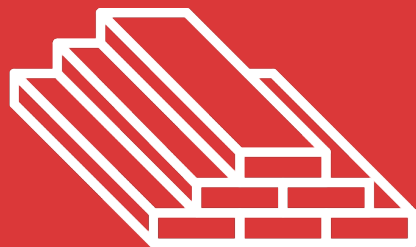
Important Considerations

- Canada is in a reconciliation process with Indigenous peoples
- The Delgamuukw and Tsilhqot'in decisions establish that Aboriginal title exists in BC
- BC's Indigenous Engagement Strategy includes access to fibre, which is evidenced by recent tenure apportionment decisions that have allocated a higher percentage of the timber harvest to First Nations



Canfor's Response





Solid Wood



Residuals

THREE KEY BUSINESS STREAMS

SOLID WOOD

SPF / SYP

Douglas
Fir/Larch



PULP & PAPER

NBSK

Kraft Paper

BCTMP



ENERGY/RENEWABLE

Green Electricity

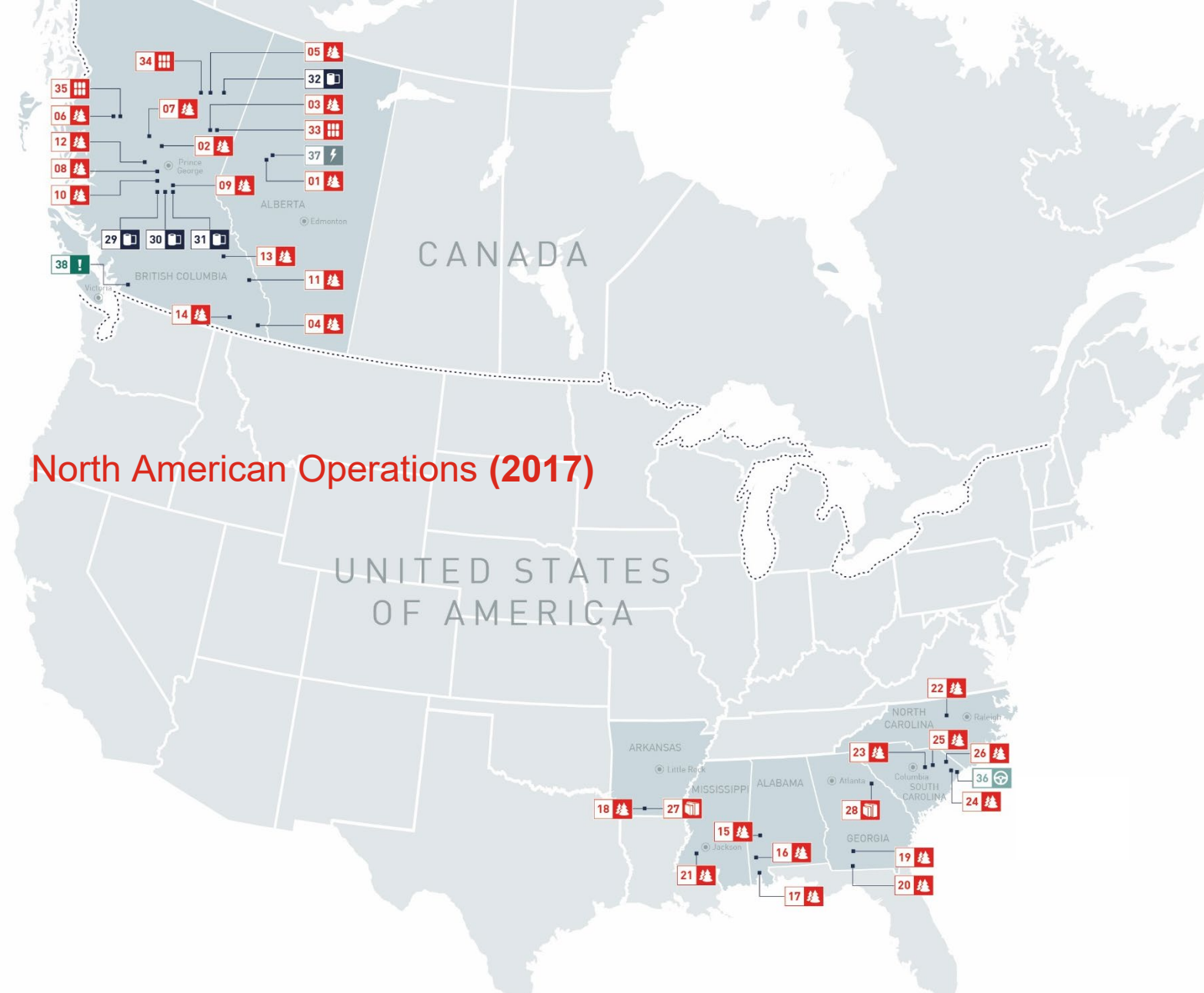
BIO Fuels

Pellets



Canfor Operations

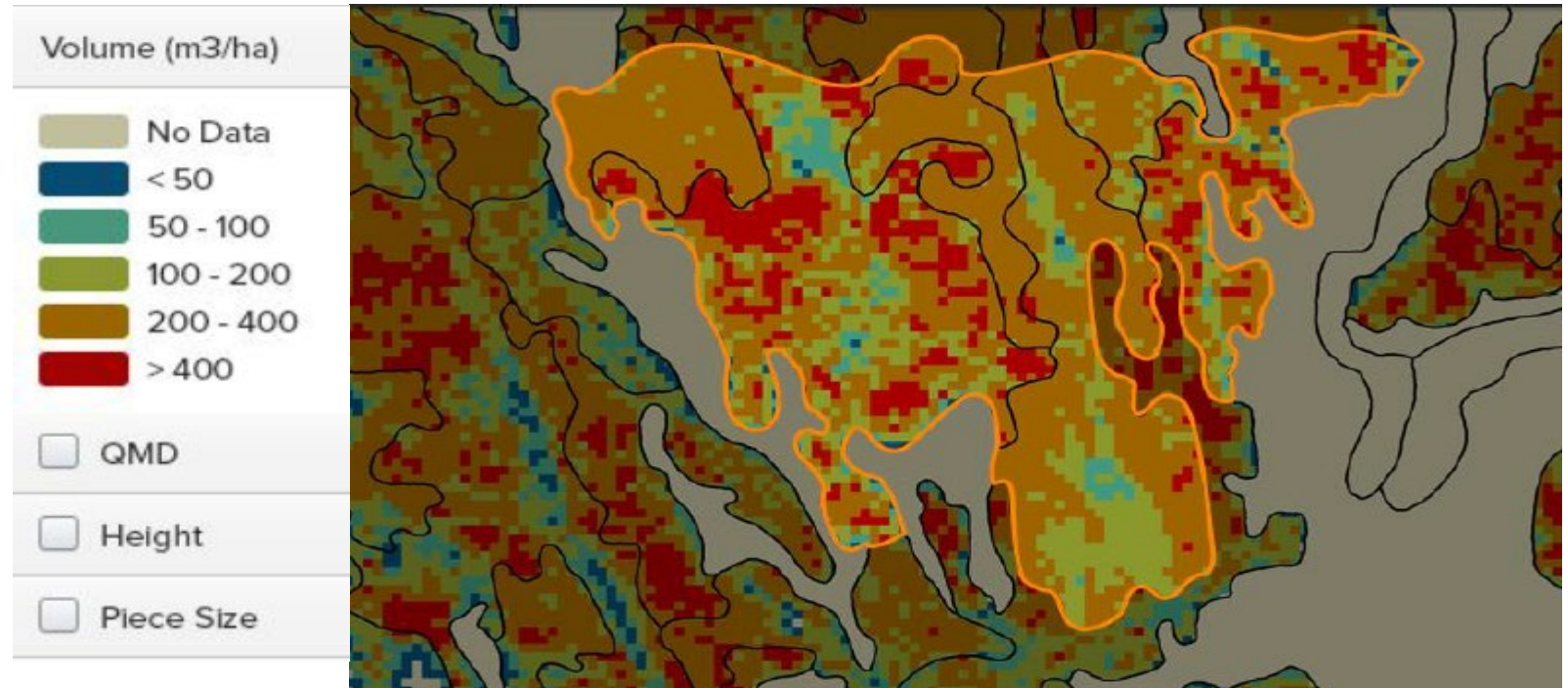
- 1.68 Medical Incident Rate
- 6,331 total workforce
- 6.1 billion board ft. of lumber
- 1.32 million tonnes of pulp and paper
- 951,00 MWh of biomass electricity
- 400,000 tonnes Industrial grade wood pellets
- 94.2% woodlands under independent forest certification
- 67 million trees planted
- \$5.86 billion in sales



Forest Inventory – Lidar (Light Detection and Ranging)

Individual Tree Inventory

- 3-D Laser Scanning
- Significantly reducing the cost of information gathering
- Allowing Planners to see products produced from cutblocks... *immediately*.



Residual Fibre – Focus on Recovery



Residual Fibre – Whole Log Chipping

Focus on Modernization

- Improved Productivity and Yield
- Improved Debarking
- Chip Size Distribution
- Customized Options
- Easier setting changeups



BC Interior Has Uncertainty

Looking Forward

- Log supply reductions in the BC Interior are inevitable in the face of the MPB epidemic
- Other issues including: public pressure to reduce logging, spruce beetle, fire and species at risk protection also threaten log supply
- First Nations
- Canfor's BC investments and global expansion will ensure our customers needs are met



Thank you

