



# Western Forestry and Conservation Association

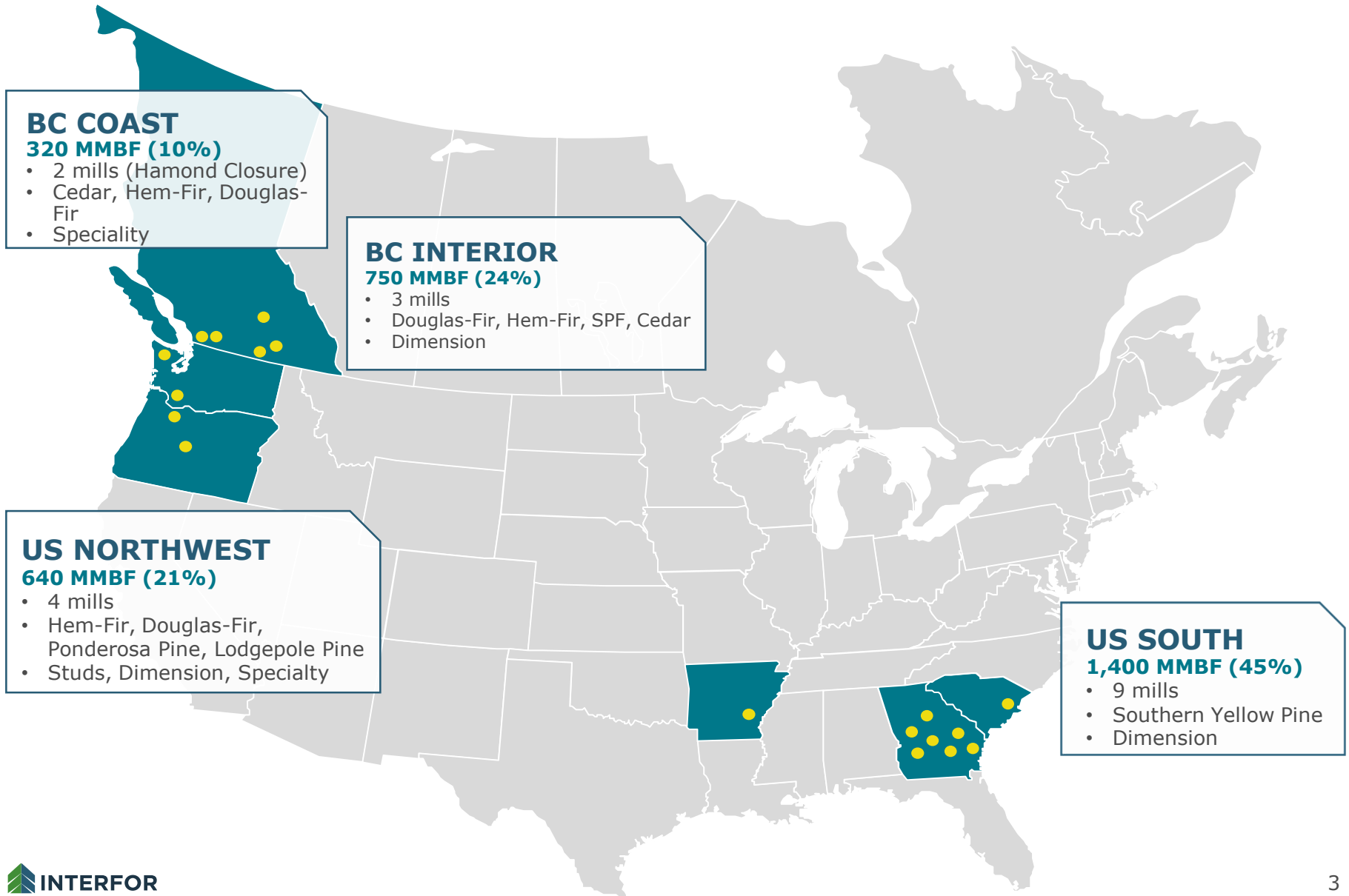
January 23 2020



# AGENDA

- Interfor Corporation
- Timber Supply Situation
- Stumpage/Costs
- Rationalization
- Forward Looking Outlook

# INTERFOR'S FOUR REGIONS



# INTERFOR AT A GLANCE

50+  
YEARS  
SERVING  
GLOBAL  
MARKETS



3,100  
EMPLOYEES  
USA: 1900+  
CANADA: 1100+



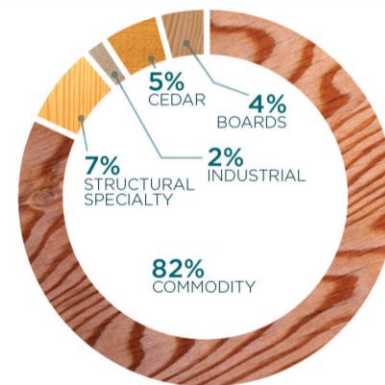
SFI,  
PEFC  
CERTIFIED



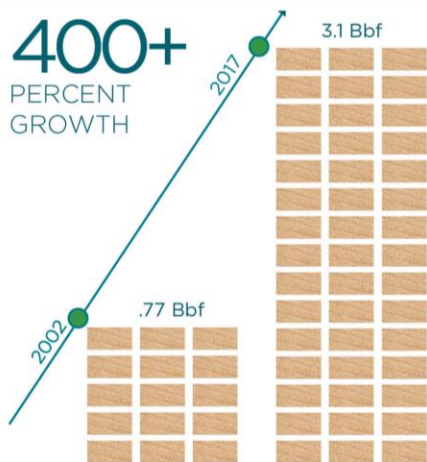
18  
MILLS



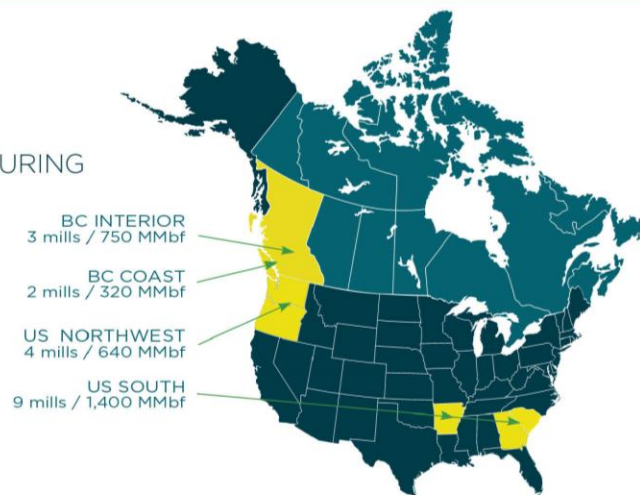
BROADEST  
RANGE OF PRODUCTS



400+  
PERCENT  
GROWTH



4  
DISTINCT  
MANUFACTURING  
REGIONS



ONE SINGLE SOURCE OF SUPPLY.

# B.C. FOREST INDUSTRY 2019

☰ 2019 B.C. Mill Closures... 🔍 ⋮

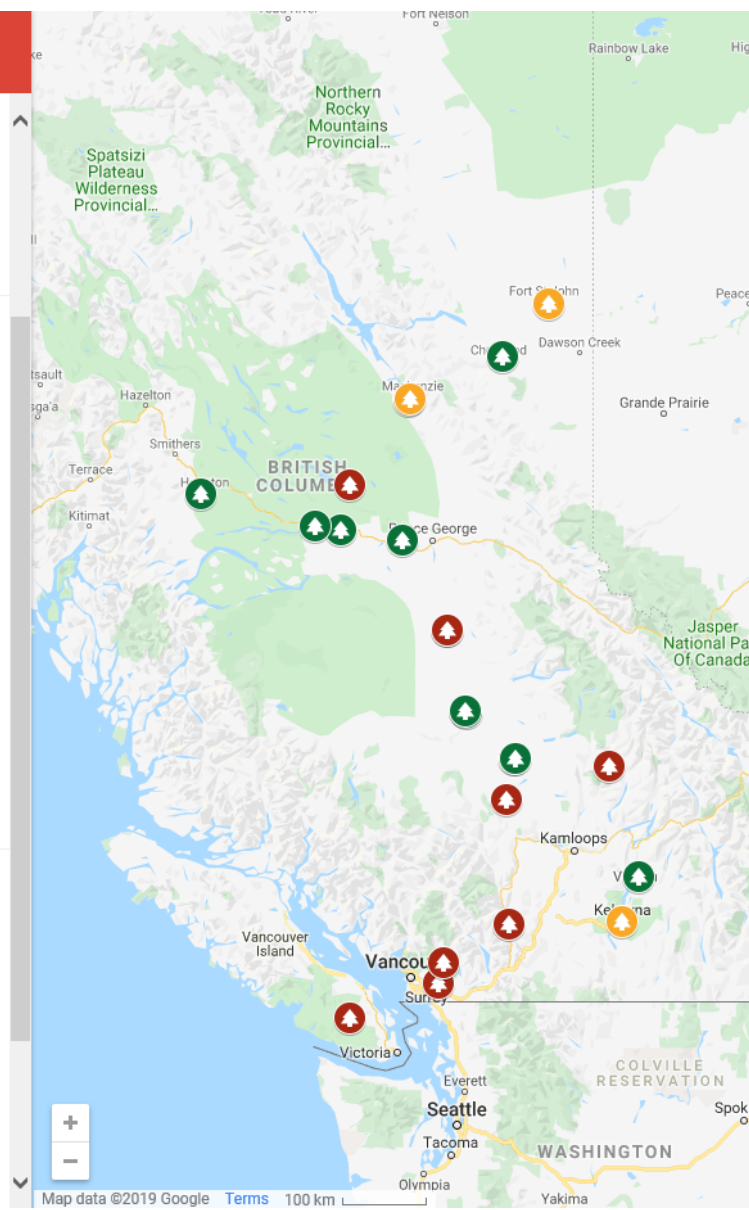
- 🔥 Louisiana Pacific Peace Valley OSB Mill...
- 🔥 Canfor Sawmill - Mackenzie
- 🔥 Parallel 55 Fingerjoint Plant - Mackenzie
- 🔥 Tolko Industries lumber mill - Kelowna

☑ Shift reductions and curtailments

- 🌲 Canfor Sawmill - Isle Pierre (Prince Geor...
- 🌲 Canfor Sawmill - Houston
- 🌲 Canfor Sawmill - Plateau
- 🌲 Tolko Stud Lumber Mill - Armstrong
- 🌲 Tolko Soda Creek Stud Lumber Mill - Will...
- 🌲 West Fraser Forest Industries - Chetwynd
- 🌲 West Fraser Sawmill - Fraser Lake
- 🌲 West Fraser Sawmill - Quesnel
- 🌲 West Fraser Plywood - Williams Lake
- 🌲 West Fraser Sawmill - Williams Lake
- 🌲 West Fraser Sawmill - 100 Mile House

☑ Closed

- 🔥 Canfor Sawmill - Vavenby
- 🔥 Conifex Sawmill - Fort St. James
- 🔥 Interfor Hammond Sawmill - Maple Ridge
- 🔥 Teal-Jones Harvesting Operations - Bost...
- 🔥 Teal-Jones Harvesting Operations - Hon...
- 🔥 Tolko Industries Sawmill - Quesnel
- 🔥 West Fraser Chasm Sawmill - 70 Mile H...

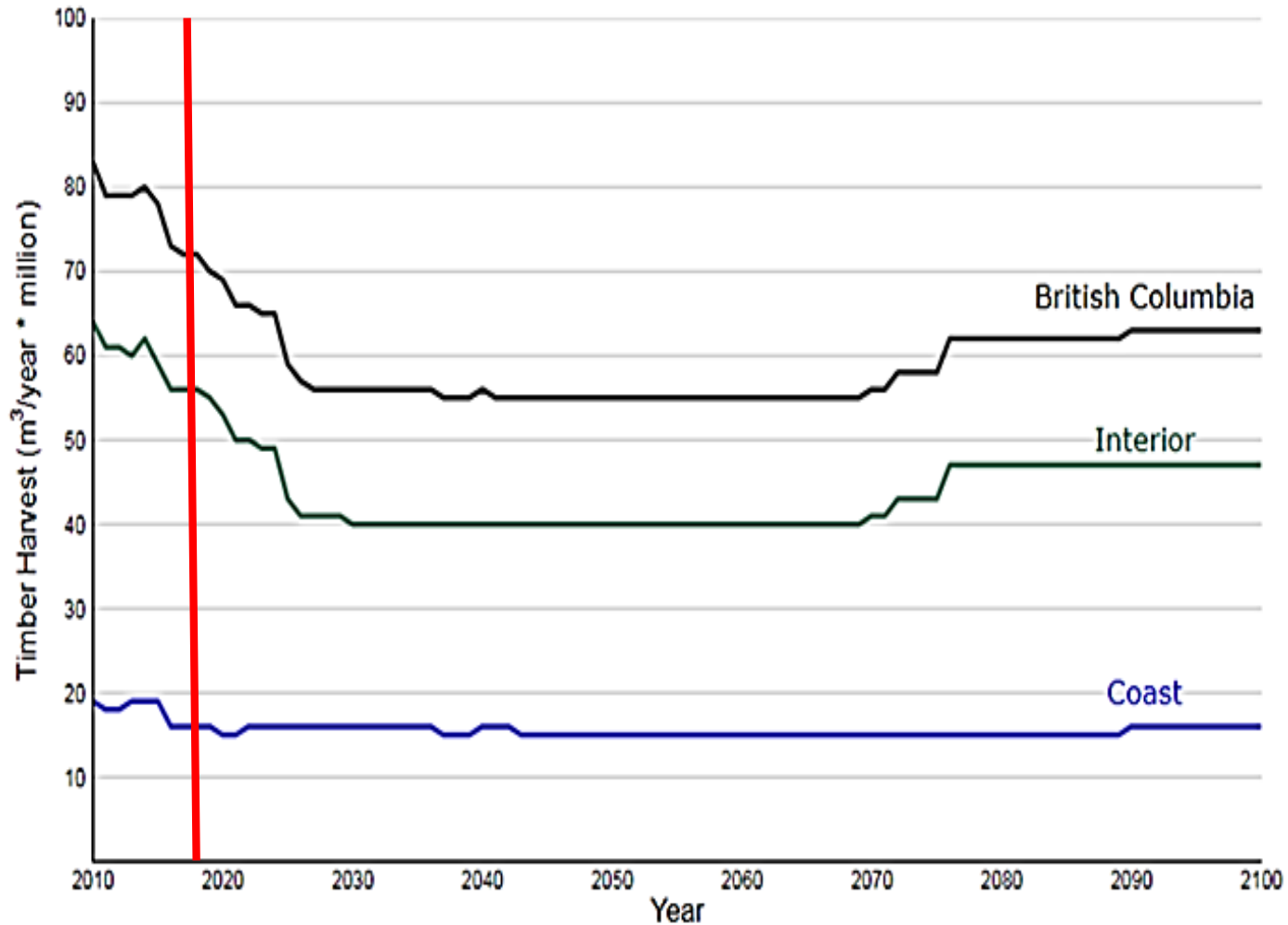


# B.C FOREST INDUSTRY 2019

## NORTH AMERICAN LUMBER PRODUCTION BY REGION (BBF)

<u>Region</u>	<u>YTD August</u>			<u>Y/Y Variance</u>	
	<u>2017</u>	<u>2018</u>	<u>2019</u>	<u>'18 vs. '17</u>	<u>'19 vs. '18</u>
South	12.4	13.0	13.0	5%	0%
West	9.3	9.8	9.6	5%	-2%
Other	1.1	1.1	1.1	4%	-1%
<u>USA</u>	<u>22.8</u>	<u>23.9</u>	<u>23.7</u>	<u>5%</u>	<u>-1%</u>
BC	8.8	8.6	6.9	-2%	-20%
Rest of Canada	10.2	10.1	9.8	-2%	-3%
<u>Canada</u>	<u>19.0</u>	<u>18.7</u>	<u>16.7</u>	<u>-2%</u>	<u>-11%</u>
<u>North America</u>	<u>41.8</u>	<u>42.6</u>	<u>40.4</u>	<u>2%</u>	<u>-5%</u>

# LONG TERM HARVEST LEVEL - BC



Source: BC MoFLNRORD

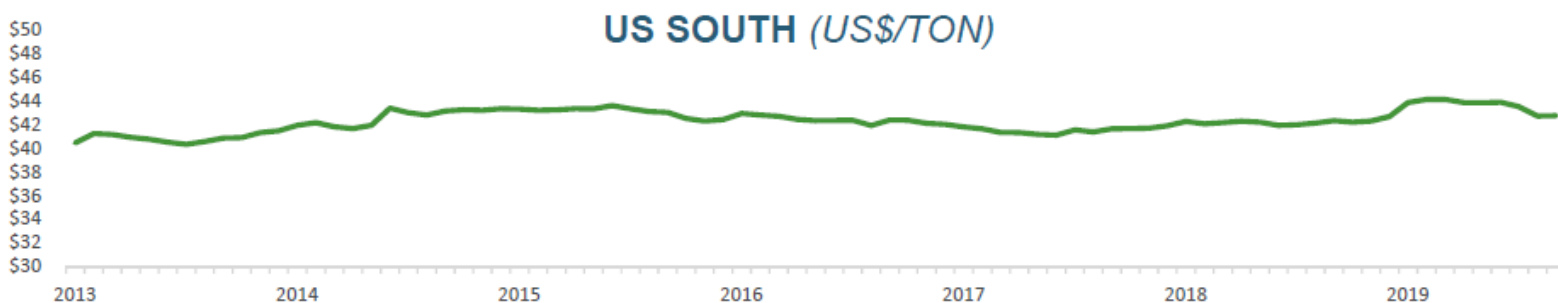
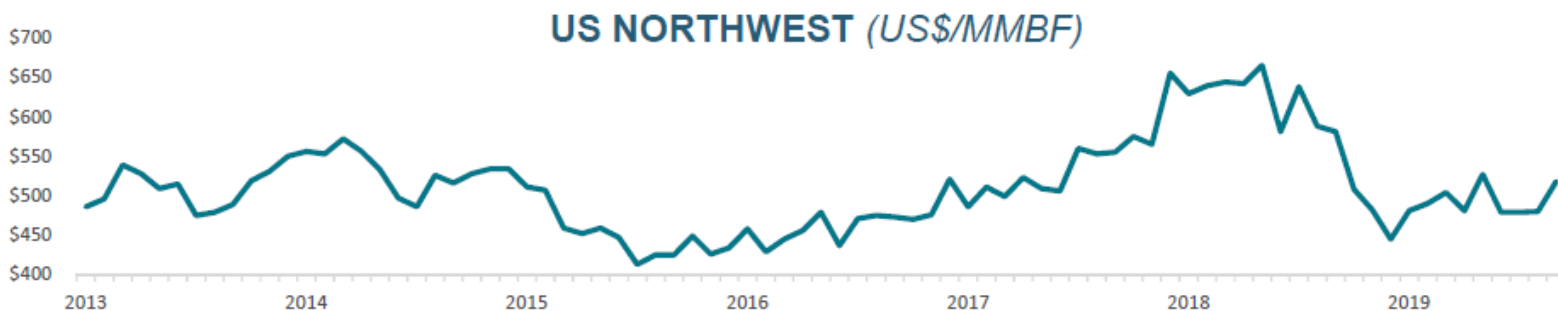
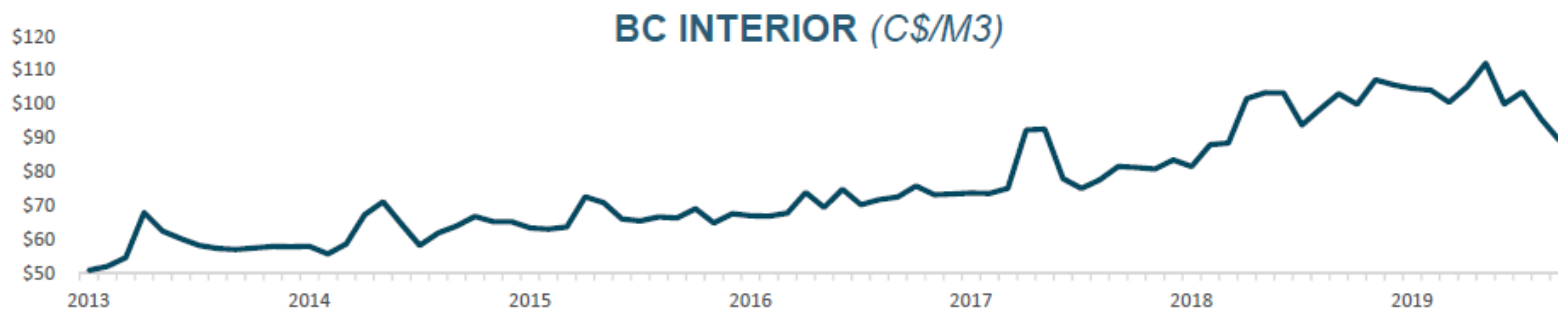
# REGIONAL SUPPLY AND DEMAND

Timber Supply Area	Current (m3/year) (TSA,TFL,Misc.)	5 Year Forecast (m3/year) (TSA,TFL,Misc.)	Current Consumption Est. (m3/year)
Kamloops	3,200,000	2,600,000 ↓	3,100,000
Merritt	1,600,000	1,300,000 ↓	1,900,000
Robson	500,000	480,000 ↓	0
Okanagan	3,500,000	2,800,000 ↓	3,200,000
100 Mile House	2,100,000	1,070,000 ↓	1,500,000
<b>Total</b>	<b>10,900,000</b>	<b>8,250,000</b>	<b>9,700,000</b>





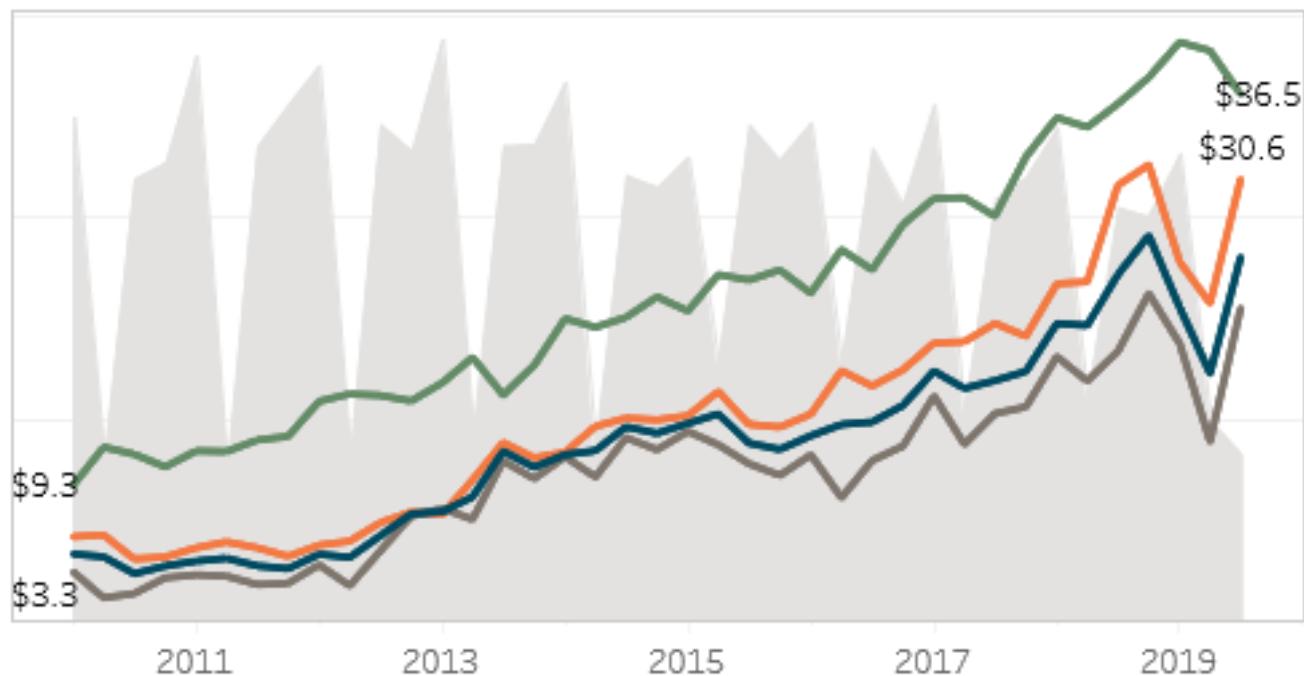
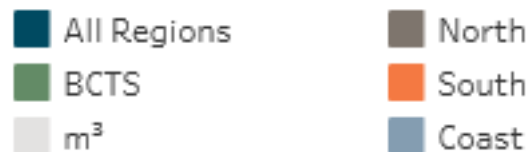
# REGIONAL LOG COSTS



BC Interior: Avg. Monthly BC Interior Sawlog Purchase Price - BC Ministry of Forests Timber Pricing Branch;  
 US NW: Avg. Monthly Washington State (Coast Region) Hem-Fir #2 Sawlog Delivered Price - Washington State Department of Natural Resources;  
 US South: Avg. Monthly US South Pine Sawtimber Delivered Price - Forest2Market

# STUMPAGE

## Regional Summary



## Stumpage and Volume over Time

# BC AAC AND APPOINTMENT

## A) ALLOWABLE ANNUAL CUT (AAC):

	<b>m3</b>	<b>ha</b>
Timber Supply Area (TSA)	51,540,875	
Tree Farm Licences (TFL)	12,635,246	538
<b>Total:</b>	<b>64,176,121</b>	<b>538</b>

## B) APPORTIONMENT OF AAC:

	<b>m3</b>	<b>% of Total AAC(m3)</b>	<b>ha</b>	<b>% of Total AAC(ha)</b>
TSA Forest Licences Replaceable	28,421,728	44.29		
TSA Forest Licences Non-Replaceable	11,578,269	18.04		
TSA First Nations Woodlands Tenure	1,688,648	2.63		
TSA Non Replaceable Forest Licence - First Nations	896,362	1.40		
TSA Non Replaceable Forest Licence - Salvage	3,000	0.00		
TSA BCTS Forest Licence Non-Replaceable	250,000	0.39		
TSA BCTS Timber Sale Licence/Licence to Cut	13,476,543	21.00		
TSA Pulpwood Agreement TSL	1,342,141	2.09		
TSA TSL <= 10000 m3 Replaceable	25,081	0.04		
TSA Community Forest Agreement	612,459	0.95		
TSA Woodlot Licence	91,015	0.14		
TSA Forest Service Reserve	821,236	1.28		
TSA FS Reserve - Small Scale Salvage Program	6,813	0.01		
TSA BCTS Partnership	50,000	0.08		
TSA FN Replaceable (RFL/FNWL)	215,109	0.34		
TSA Forest Licences (Replaceable) First Nations	126,210	0.20		
<b>TSA</b>	<b>59,604,614</b>	<b>92.88</b>		
TFL Licensee Total	11,817,550	18.41		
TFL BC Timber Sales	431,729	0.67		
TFL Other	385,967	0.60		
<b>TFL</b>	<b>12,635,246</b>	<b>19.69</b>		
<b>Total</b>	<b>72,239,860</b>	<b>112.57</b>		

# STUMPAGE 101

- **Stumpage** = Value – Cost
- **Value** = Estimated Winning Bid (BC Timber Sales) and Average Market Values
  - Determined through a regression of BCTS historical winning bids (multiple years)
  - “Dummy” variable sets the relative level of the regression (annually)
- **Cost** = Activities incurred by tenure holder that aren't incurred by BCTS licensees



# MARKET PRICING – INTERIOR

## Interior Market Pricing System: Update – 2019

### Estimated Winning Bid Equation

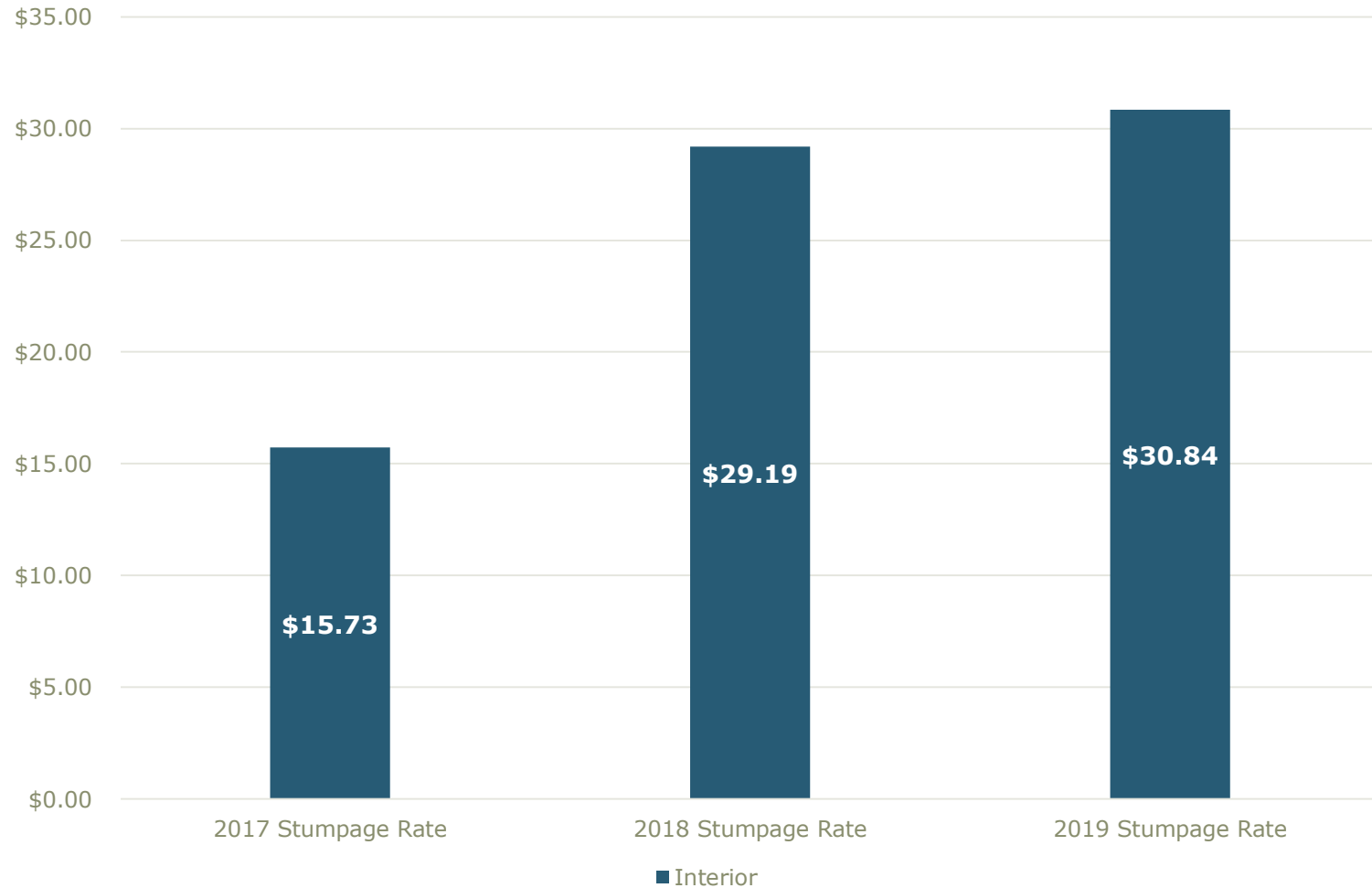
<sup>2</sup> Variable	2018 Equation		<sup>1</sup> Benchmark Equation	
	Co-efficient	t – Statistic	Co-efficient	t – Statistic
LN (Number of Bidders)	4.882293	18.73092	5.468604	17.78398
Constant	12.34014	2.701086	16.41626	3.078106
Real Stand Selling Price	0.321006	31.90652	0.368814	34.62304
Cedar Fraction	15.64885	3.901579	13.33979	2.827092
Cedar Fraction*Cedar Decay	-108.3408	-6.361644	-132.5323	-6.600691
Hemlock Fraction	-16.95987	-11.57038	-19.14630	-11.41236
Balsam Fraction	-6.444100	-5.871217	-9.455557	-7.697584
Larch Fraction + Yellow Pine Fraction	-12.65617	-4.027727	-19.49202	-5.336605
[(Fir Fraction + Yellow Pine Fraction) * Dry Belt] or [District DRM or DMH]	-4.637923	-2.890285	-3.097168	-1.807246
Cable Yarding	-19.66321	-15.69822	-22.15889	-15.55456
LN(Volume/1000)	1.857719	8.730014	2.242945	9.083234
Decay Fraction	-7.434944	-1.573458	-3.625549	-0.661500
Fire Damaged Fraction	-12.09745	-4.025529	-13.16653	-6.472434
LN(VPH)	0.906263	1.477537	0.122925	0.171880
LN (Volume per Tree)	7.970377	15.29429	7.851740	12.99574
Cycle + 0.5 *(Cycle – 6.0 hours)	-1.331440	-12.20104	-1.494972	-12.14631
Zone 9	-8.595126	-12.36981	-8.187003	-10.31430
Cruise Based * (1 – RG35)	-5.906503	-8.617753	-6.595888	-8.373894
Cruise Based * (RG35)	-4.798896	-8.860104	-5.713188	-9.257376
Decked Fraction	53.67498	4.708957	37.27577	2.963743
Ground Skid Slope Squared (15-50)	-0.005954	-3.950435	-0.008094	-4.636139
2017 Auctions	4.386529	6.800024	n/a	n/a
2018 Auctions	n/a	n/a	19.72497	24.80011
Grey Fraction	-1.364460	-12.20796	-1.696324	-15.13539
Exchange Rate	-31.23580	-15.20823	-35.43622	-14.79999
Total Interior Harvest	0.429197	11.72246	0.431939	9.950382
Blowdown	-14.40353	-3.684896	-15.30230	-3.412376
Deciduous (Cruise Based)	-11.50487	-4.468151	-15.79432	-5.242445
Camp	-1.000290	-2.664921	-1.320808	-2.932124
Distance to Support Centre	-0.023724	-7.565300	-0.020422	-5.574702
# of Observations	2863		3083	
Adjusted R <sup>2</sup>	0.771389		0.785927	

<sup>2</sup>2018 Equation using 2019 Auction Data Set

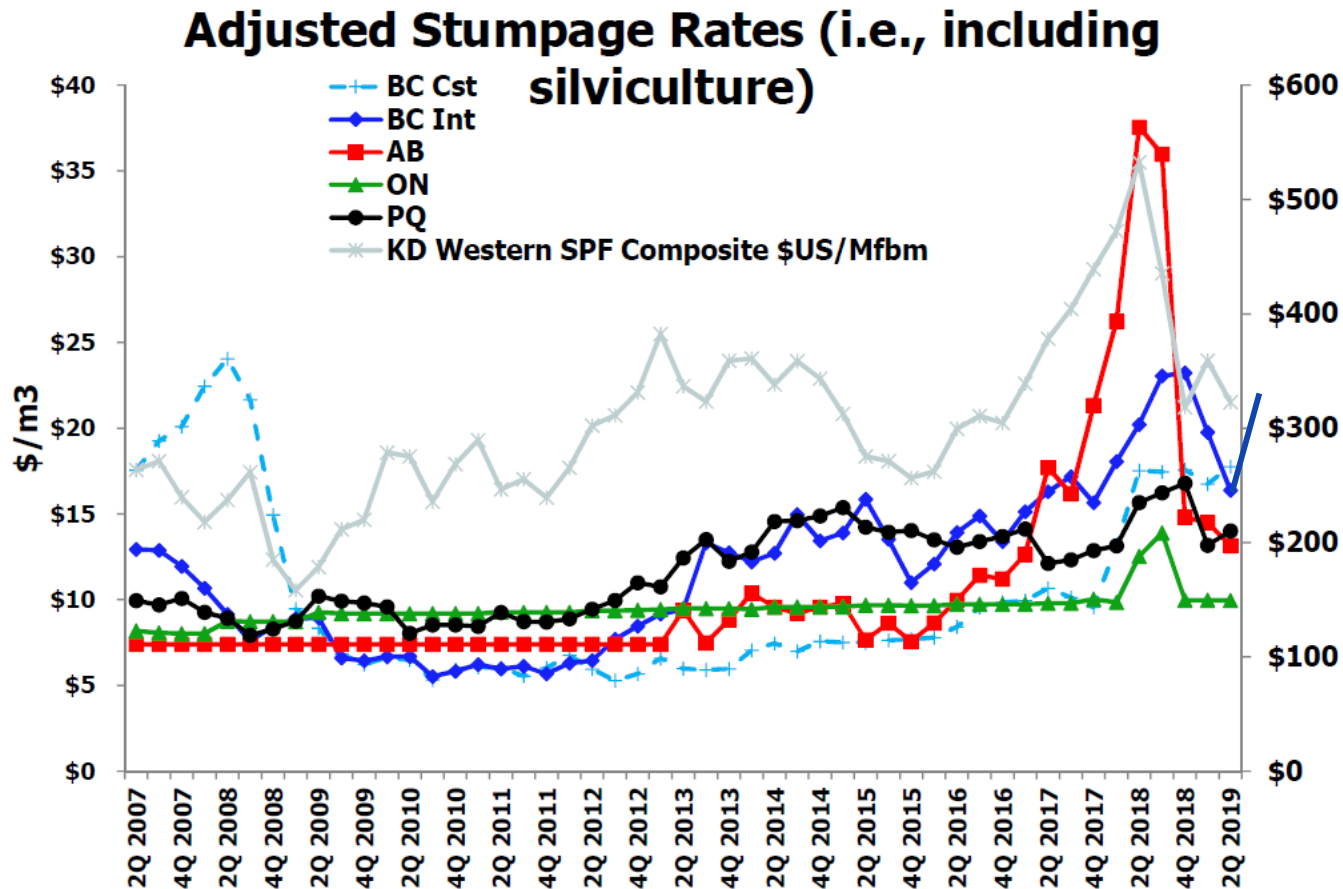
<sup>1</sup>LN means the natural logarithm

# STUMPAGE

Avg Stumpage with CPs and Volume Held Constant (2017 = base year)

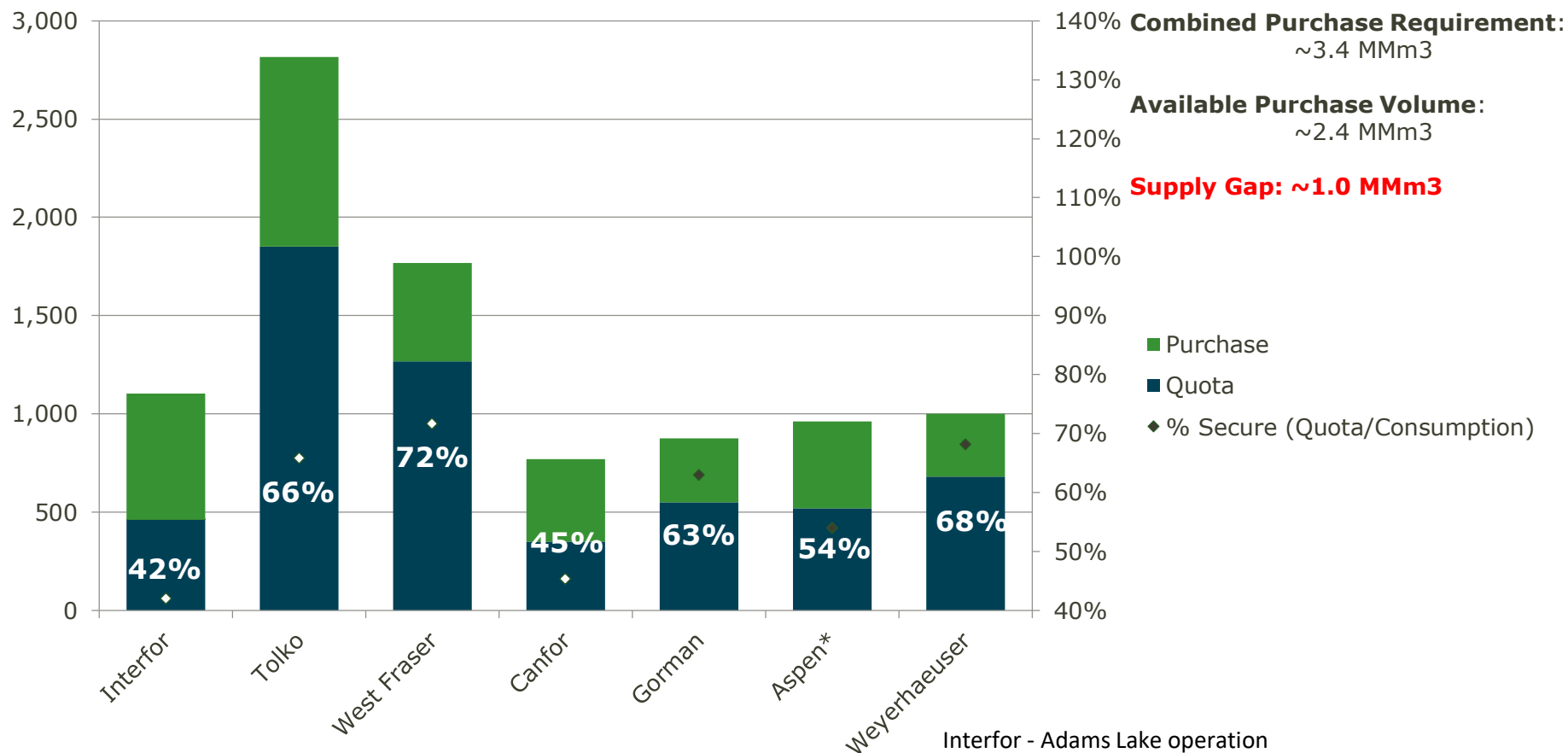


# STUMPAGE



# THOMPSON/OKANAGAN REGIONAL SUPPLY/DEMAND

## Prior to June 3<sup>rd</sup> Announcement



\*Aspen % secure is highly dependent on economics of Lillooet quota volume

Interfor - Adams Lake operation  
 Tolko - Thompson/Okanagan operations (incl. Gilbert Smith)  
 West Fraser - Chasm/100 Mile operations  
 Canfor - Vavenby operation  
 Gorman - West Kelowna and Canoe operations  
 Aspen - Lillooet and Merritt operations

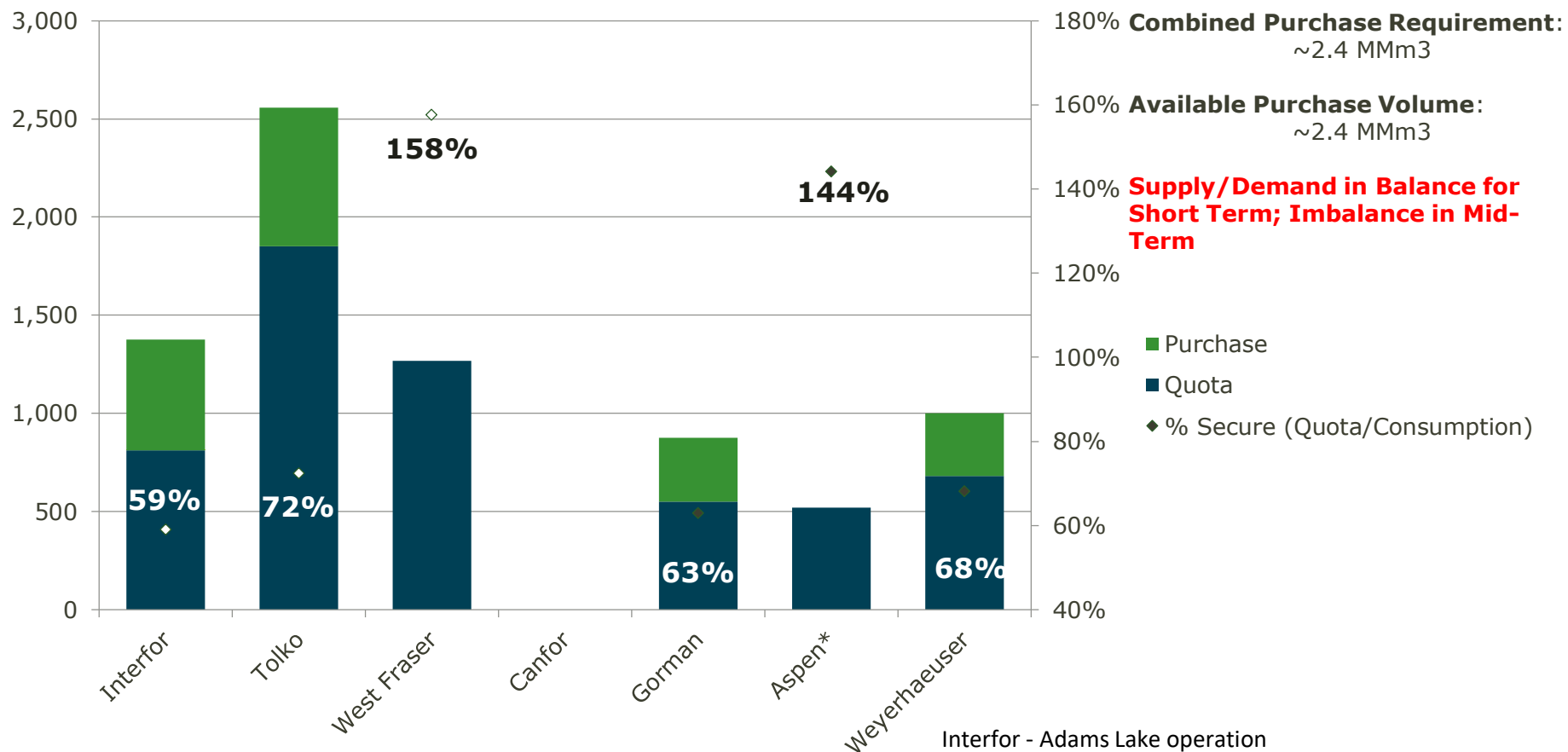


# BILL 22 FOREST ACT AMENDMENT

- Government control over the disposition of Crown tenures;
- Ensure that public interest is considered in the disposition of Forest Act agreements;
- Ensure that dispositions and changes of control do not result in further concentration within the forestry sector;

# THOMPSON/OKANAGAN REGIONAL SUPPLY/DEMAND

## After Recent Announcements

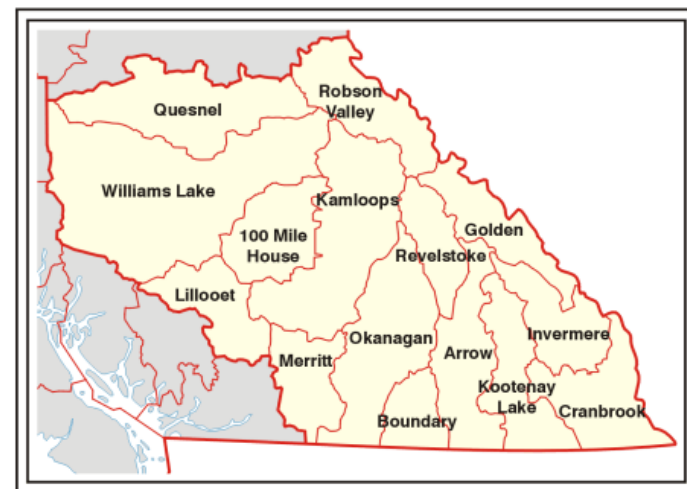


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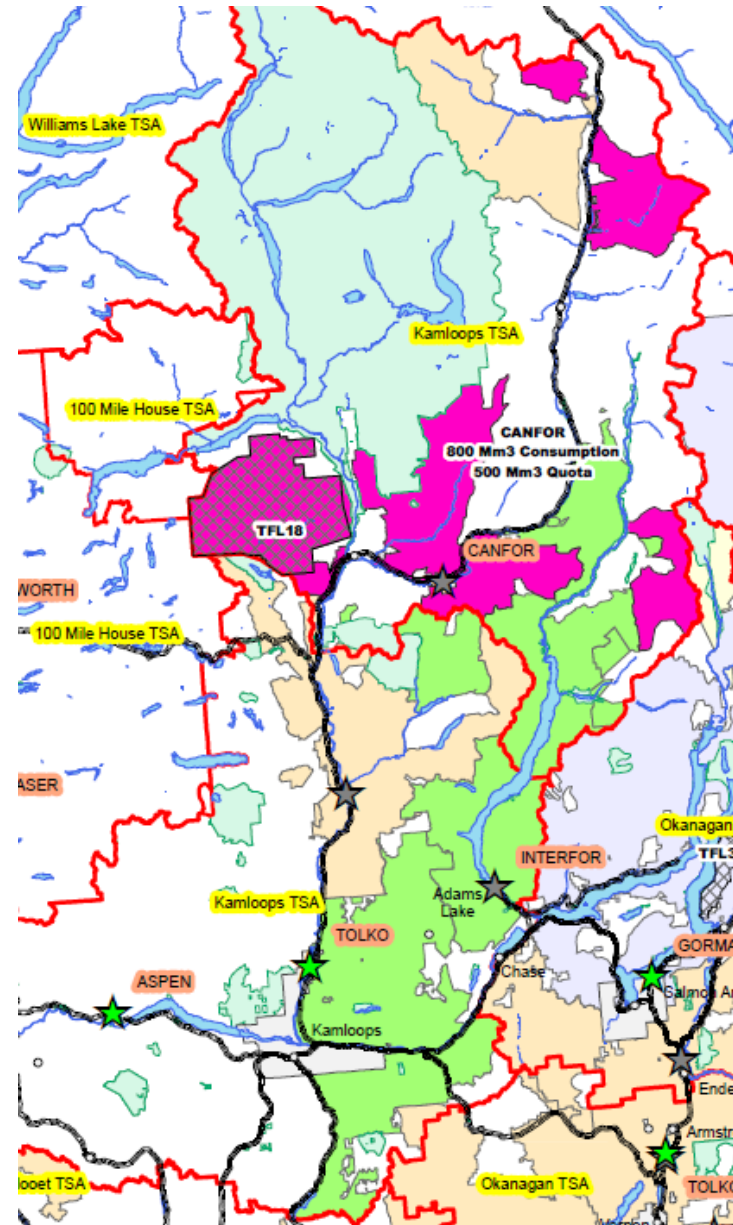
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Robson	450,000	400,000	0
Okanagan	3,400,000	2,600,000	2,800,000
100 Mile House	1,100,000	900,000	900,000
<b>Total</b>	<b>9,150,000</b>	<b>7,400,000</b>	<b>7,300,000</b>



# CANFOR TENURE ACQUISITION BILL 22

- Mitigate the impact of the mill closure
- North Thompson contractor mitigation
- First Nations economic partnerships
- Committed to working with secondary manufacturers in the region



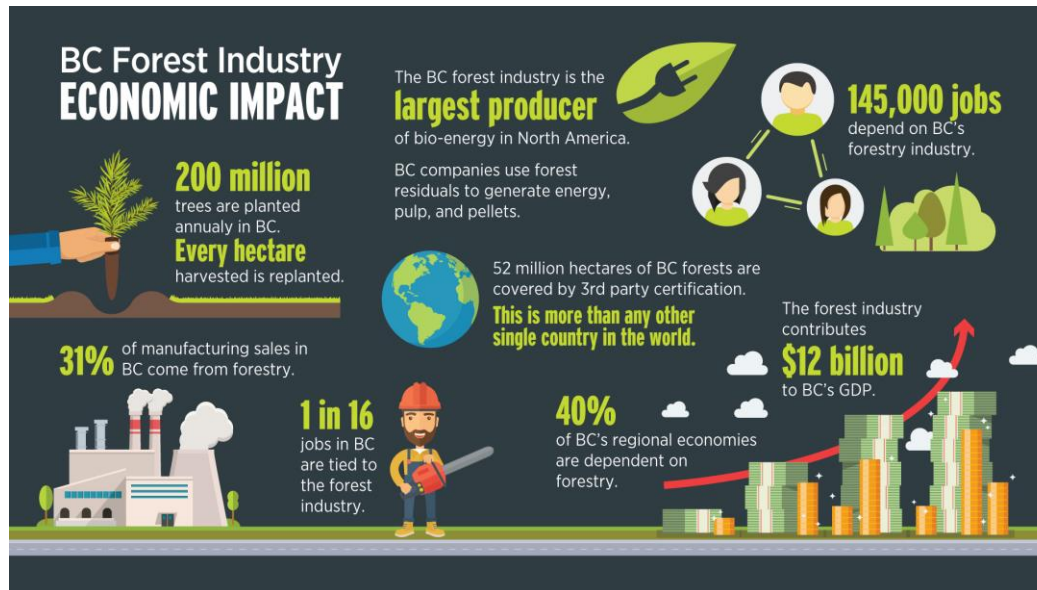


# FOREST POLICY

- **Stumpage**
  - More frequent formula changes
- **Southern Mountain Caribou**
  - Satisfy Federal “Species at Risk”
  - New “Core” and Matrix Provincial zones
- **UNDRIP Legislation**
  - “Free, prior and informed consent”
- **Interior “Revitalization” Process**
  - Utilization – “Less Wood More Value”

# COFI POLICY PRIORITIES

- **COFI Smart Futures Document – Priorities**
  - Define Working Forest Land Base (incl. no net loss)
  - Grow the Fiber Resource
  - Intensive Second Growth Management
  - Streamline Permitting Process





A green logging machine, possibly a skid steer loader or a small excavator, is positioned in a snowy forest. The machine is surrounded by large, cut logs. The sun is shining brightly from the left, creating a lens flare effect. The ground is covered in snow and branches, and the background is filled with tall evergreen trees.

QUESTIONS ?