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PRESS RELEASE

North America results show earnings at Eastern Canada sawmills were the worst, Western Canada is in the middle of the pack, but US sawmills are considered the winners in a terrible year

US South's "average" softwood sawmills achieve the best North American earnings results in 2008 and Q1 2009

July 10, 2009 — Vancouver, BC. The “average” or more typical sawmills in North America were the big global losers during 2008 and early 2009 with red ink the rule. With the continuing decline in market conditions in 2008, Canada’s average sawmills suffered significantly greater EBITDA losses (earnings before interest, tax and depreciation allowance, net lumber basis) averaging US\$-38/m³ as compared to US average mills (averaging US\$-14/m³). All Canadian regions saw negative EBITDA margins at average sawmills in 2008. These and other figures, including a detailed profile of delivered log costs and “top quartile” or best mills, are part of the comprehensive *Global Lumber/Sawn Wood Cost Benchmarking Report—2008 & Q1/2009*, a biannual study jointly prepared by International WOOD Markets Group, PricewaterhouseCoopers (PwC), and The Beck Group.

The BC Interior region features some of the lowest delivered log costs (although the quality was poor due the heavy volume of dead trees) and lowest sawmilling costs in North America, but the region’s earnings at average sawmills fell into the middle of the North American pack, albeit with negative results in 2008. By comparison, sawmills in all three regions in the US South that were included in the survey achieved the best earnings results in North America - this was due to a combination of factors (e.g., declining log prices, more stable lumber prices) but still yielded a marginal result.

One of the regions that achieved better results in 2008 was the B.C. Coast. While ongoing curtailments have taken out many of the region’s high cost mills, the remaining mills still operated with above average log and sawmill costs (older sawmill technology coupled with high labour costs), but higher revenues from more diversified markets offset much of these costs in 2008. As a result, the BC Coast’s earnings at average sawmills was only slightly below that of the B.C. Interior and was ahead of Eastern Canada, but again was at a loss.

The bottom line results from the report show that in 2008 and in Q1-2009, the US South achieved the best earnings results in North America at average sawmills, followed by the US West Coast regions. “Even with the removal of the lumber export tax on US shipments,” indicated Russell Taylor, President, “all Canadian regions would still have under-performed the US South mills and most of the US West mills.” The benchmarking report clearly shows that the US softwood lumber export tax is an extra burden on Canadian mills that it probably should have included a deferral clause when prices or currencies moved beyond minimum threshold levels to create a more level playing field.

Delivered log costs in most regions of Canada were most similar to those in the Southern Hemisphere countries (+/- US\$55/m³). The only region with lower delivered log costs was Russia. Delivered log costs in the B.C. Coast region were slightly higher than the rest of the country but had a higher grade and revenue yield. B.C. Coast delivered log costs were comparable to those of the U.S. South where a more basic sawlog grade is the norm.

The lowest delivered log costs in North America in 2008 occurred in the Canada Prairies region and were about the same as in 2006. "Other Canadian SPF regions had log costs that were up to 50% higher, which was also about the same trend as in 2006," said Gerry Van Leeuwen, Vice President. "The U.S. South's delivered log costs for average mills were substantially lower than 2006, creating a competitive advantage for the region's mills." The highest log costs were borne by the U.S. West but these were almost US\$20/m³ lower as compared to 2006, and were substantially lower again in Q1-2009.

Lumber recoveries from processed logs were highest in the US West, in part due to larger log diameters, while Eastern Canada featured the poorest results as a result of very small diameter logs.

According to the survey, the lowest sawmilling costs recorded for "average structural lumber mills" in North America in 2008 occurred in Oregon State. Following close behind were the B.C. Interior, Washington State and the US South-West region.

The BC Interior region's sawmilling cost results are quite remarkable, as not only is the average log diameter about 20% smaller than the US South and 40% smaller than Oregon and Washington, the log diet was heavy to mountain pine-beetle-killed trees that can be more difficult to process. The highest sawmilling costs were seen in Eastern Canada (small mills and very small logs), the BC Coast (older mills with headrigs) as well as the U.S. Inland region (smaller mills and some specialty products).

One of the other variables impacting 2008 results at average sawmills was the extreme variation in average lumber revenue. While log diameters, distance to market and market preferences directly impact FOB mill returns, the range was significant, with Western Canada recording the lowest mill returns and the Western US Inland region achieving lumber revenues that were 50% higher.

The Canadian regions (excluding the BC Coast) benefit from lower stumpage (returns to the landowner) and delivered log costs, but were challenged by higher transportation costs to markets, export duties to the US, a rising Canadian dollar and lower net lumber revenue. The US regions benefited from higher revenues relative to Canada, but some areas were disadvantaged by higher manufacturing costs from reduced shifts. In 2008, as in 2006, the weaker U.S. dollar improved the competitive position of US mills relative to Canadian mills. The opposite currency result occurred in 2009-Q1, but US sawmills still achieved much better earnings than Canadian mills.

The results for "top-quartile" sawmills in North America, which are the major focus of the report, showed some similar trends to "average" sawmills, but there were some interesting twists and surprising results on the winners and losers.

Global Lumber/Sawn Wood Cost Benchmarking Report—2008 & Q1/2009, was produced by International WOOD Markets Group Inc. with strategic input and/or cost data supplied by PricewaterhouseCoopers LLP (PwC), and the Beck Group (Beck). This global benchmarking report covers more than 29 countries or regions on six continents and is based on log and sawmilling cost data collected from mills in all countries or regions.

About International WOOD Markets

International WOOD Markets Group (www.woodmarkets.com) comprises wood products industry, market and business consulting services for industry and government clients. The firm maintains a global data-base and also offers numerous industry or market specific multi-client reports, including its landmark *WOOD Markets Monthly International Report*.

Strategic business assessments of matching the timber resource to the global commodity and specialty wood products market coupled with our feasibility analyses of timber processing options are trademark skills of the firm. Our ability to

conduct in-the-field investigations coupled with our global network of contacts and comprehensive data-base delivers strategic results for clients looking to review or expand their domestic or global business or in evaluating investments.

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About The Beck Group

The Beck Group is an established, highly experienced forest products-based planning, consulting and benchmarking firm. Key personnel at Beck have extensive forest industry experience. The firm has assisted more than 150 forest products companies at more than 250 locations. While the company focuses primarily on the US, it also has significant international experience, including projects in Eastern and Western Canada, Finland, Chile, Australia, New Zealand, Russia, Panama, Fiji, and South Africa.

Beck is an industry leader in Competitive Assessment (benchmarking) studies for the forest products industry. The company has completed numerous studies for various segments of the industry, including hardwood lumber, oriented-strand board (OSB), softwood lumber, plywood, particleboard, and medium density fiberboard (MDF). In addition, the firm is active in feasibility studies, due diligence, cogeneration and a variety of other studies.

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