

MADISON'S LUMBER REPORTER

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News & Updates

Forestry Equipment Suppliers

Just as Modern Machinery completed its takeover of recently bankrupt Madill Equipment, quarterly results were released for Finning International Inc. and Deere & Co. Finning's 2Q net income was US\$67 million, compared with earnings of US\$74 million from one year ago. The company stated that "despite the challenges of a much stronger Canadian dollar, the dealership operations exceeded Q2 2007's record revenue levels, producing the highest revenue on record for any quarter in Finning's history." Canadian 2Q 2008 sales accounted for US\$849 million compared to US\$846 from one year ago and US\$681 million in 2006.

Meanwhile Deere & Co.'s 3Q 2008 net profit rose 7 per cent from the same period in 2007 to US\$575 million as soaring crop prices boosted global demand for agricultural equipment. A year earlier Deere earned US\$537 million. Deere released a statement warning that "soaring raw materials prices would pressure profit margins for the current period, sending shares down as much as 12 per cent (US\$140 million)." Deere's shares plummeted the most in 20 years after that company forecast 4Q 2008 earnings to be just US\$425 million.

Nanaimo's Madill Equipment assets were auctioned by Toronto-based Danbury Sales Inc. August 12 after the long-standing forest equipment company declared bankruptcy in April and immediately locked its gates, leaving about 190 employees out of work. Washington-based Modern Machinery, which sells heavy equipment for the forestry industry and others, bought all the rights to the Madill name and product from the receiver, RSM Richter, and will be the worldwide distributor of parts and service for Madill machines. The company has no plans to manufacture Madill parts at the closed facility in Nanaimo.

Canadian Housing Starts

The seasonally adjusted annual rate of housing starts was 186,500 units in July, down from 215,900 units in June, according to Canada Mortgage and Housing Corporation (CMHC).

Meanwhile, the U.S. housing market crash has hit the North American forest products sector with the price of some wood products falling to a 17-year low. [READ MORE](#)

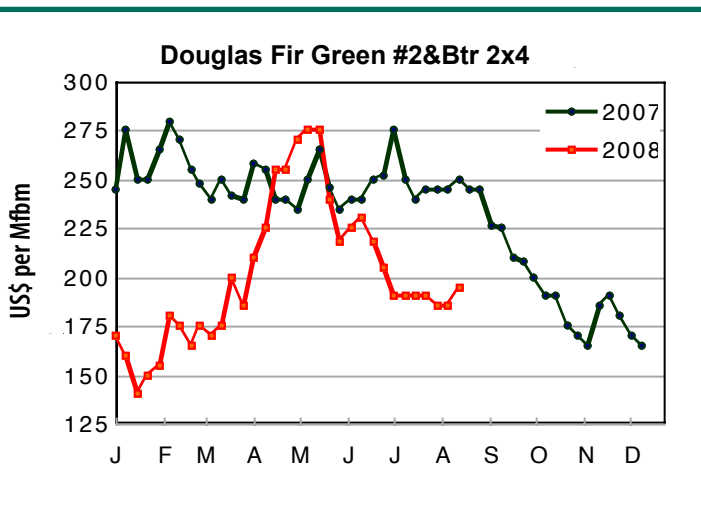
Nanaimo Pulp Mill

A new bid for the bankrupt Pope & Talbot's Harmac pulp mill for \$20 million – \$6.8 million more than the employee deal of \$13.2 million threatens the success of the prior offer. [READ MORE](#)

Canadian Timberland Development in China

Mississauga, Ontario based Sino-Forest Corp. stock gained 17 per cent this week after reporting glowing 2Q results, including net income that soared by 98 per cent, and earnings per share that jumped 82 per cent year on year.

The company recently purchased 200,000 hectares of timberland in China, and has very ambitious plans for the future. [READ MORE](#)



CANADIAN HOUSING STARTS				
Actual and Seasonally Adjusted Annual Rates				
	June 2008		July 2008	
	Actual	SAAR	Actual	SAAR
Canada, all areas	22,032	215,900	17,217	186,500
urban ctrs with >10,000	16,462	189,500	14,444	161,400
singles, urban centres	6,640	74,700	6,911	69,800
multiples, urban centres	7,072	114,800	7,533	91,600
rural areas	2,931	26,400	2,773	25,100
Atlantic urban centres	1,092	8,500	1,000	8,700
Quebec urban centres	3,706	40,300	3,112	41,200
Ontario urban centres	8,246	78,100	4,911	47,800
Prairie urban centres	2,657	31,100	2,559	30,600
B.C. urban centres	2,635	31,500	2,852	33,100

Source: Canada Mortgage and Housing Corporation

Prices are in U.S. dollars per 1,000 fbm.

Key Prices

	This Week	Last Week	Change	Month Ago	Change	Year Ago	Change
WSPF KD R/L 2x4	282	270	+12	262	+20	264	+18
WSPF KD R/L 2x6	300	274	+26	248	+52	282	+18
WSPF KD R/L 2x8	288	284	+4	248	+40	292	-4
WSPF KD R/L 2x10	295	290	+5	267	+28	350	-55
WSPF KD PET 2x4 Stud	220	220	0	235	-15	287	-67
Douglas Fir Green R/L 2x4	195	185	+10	190	+5	245	-50
Douglas Fir Green R/L 2x10	240	230	+10	205	+35	275	-35
ESPF KD 2x4 8ft Stud	295	300	-5	310	-15	345	-50
OSB Ontario 7/16" (CDN\$)	215	210	+5	215	0	185	+30

Weekly News

Canadian Home Building

CONTINUED The seasonally adjusted annual rate of urban starts decreased by 15 per cent in July compared to June. Both urban multiples and singles moved down, with a drop of 20 per cent for multiples to 91,600 units, and a 7 per cent decline for singles to 69,800 units.

For the first seven months of 2008, actual starts in rural and urban areas combined were up an estimated 2.3 per cent compared to the same period last year.

In the United States the housing market is expected to bottom out this year and start to recover slowly in 2009. The construction crisis has led to the lowest North American building material prices in decades.

The unprecedented drop of more than 50 per cent in U.S. housing starts between 2005 and those estimated for this year has hit North American sawmilling output,

with up to one quarter of North American capacity curtailed or closed to accommodate the lower demand.

JD Irving

J.D. Irving Ltd. has announced the closing of a sawmill in Prince Edward Island and another in Maine. The company will try to place the 36 employees in P.E.I. and about 44 workers in Maine who are facing layoffs at its other facilities.

A fire on Monday that destroyed the planer mill in Maine expedited the closing of that operation, which had been on reduced shifts for the past three years. The P.E.I. mill had been curtailed since September.

The number of sawmills in North America has continued on a downward decline since 1995, while the size of the remaining plants continues to increase, according to a recently updated study by economist

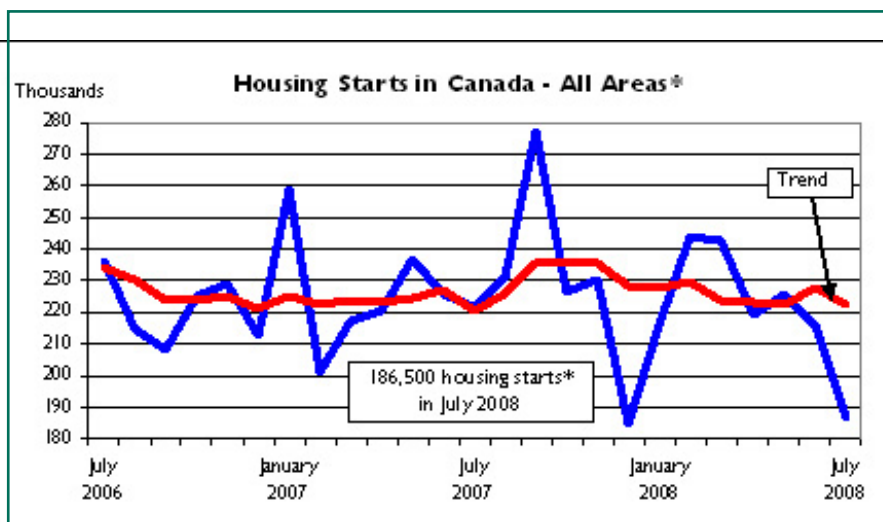
Henry Spelter with the American Forest Products Laboratory.

The number of sawmills has dropped to 990, down from 1,311 in 1995, the first year the study analyzed. At the same time, the average output of sawmills has increased – climbing to 70 million board feet from below 50 million board feet.

Announcement

International Forest Products Limited (“Interfor”) notified Portac, Inc. (“Portac”) it would pay for the previously-announced acquisition of Portac’s Olympic Peninsula operations with funds drawn from its bank facilities and consequently would not issue any shares to Portac under the terms of its option to pay a portion of the purchase price in Interfor Class A Subordinate Voting shares.

The transaction is scheduled to close on September 30, 2008.



SOURCE: Canadian Mortgage and Housing Corporation



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Pulp Mill Battle

Harmac

An innovative plan by the union and mill management, an interior BC sawmill and a group of investors to re-open the former Pope & Talbot pulp mill in Nanaimo is threatened by both resistance from the receiver, PricewaterhouseCoopers, and the judge presiding over the case.

by Kéta Kosman

The mill workers, who are putting up \$25,000 each, interior-based Pioneer Log Homes plus Fraser Valley construction company Totzauer Holdings and an anonymous family group from Vancouver, have formed a new company called Nanaimo Forest Products. They have until August 29 to close the deal with the \$13.2 million originally offered. The group is also going to need access to large capital investment for upgrades to the 60 year old mill.

A Nanaimo Forest Products company spokesperson said the group fully intends to meet the Aug. 29 deadline. The backup bid doesn't change anything.

PWC claimed in court this week that the second offer contains better terms for creditors of bankrupt Pope & Talbot, owners of the mill. PWC did not support the employee offer, and recommended at a hearing that B.C. Supreme Court Justice Donald Brenner approve the new bid as a back-up offer should the employee deal fall apart.

Justice Brenner approved the NFP deal July 30, despite a recommendation from PWC that it be rejected due to uncertainties over issues such as outstanding wage claims that remain unresolved.

The new offer comes from an Alberta-based real estate company, Cable Bay Lands Inc., that already owns 216 hectares of land immediately south of the Harmac mill, and is seeking municipal approvals to develop it into a golf course and 1,800-home residential community.

A spokesperson maintains that the company would first attempt to reach a deal with the worker group to operate the mill before proceeding with development plans. "We have no interest in shutting the mill down, but we have no expertise to run it and no ability to go in there to do so."

Owning the Harmac site, even though environmental cleanup costs could be in the \$40 million to \$50 million range, would be beneficial for the development, the spokesperson said.

Pope & Talbot's website explains that the Harmac mill was a three line Northern Bleached Softwood Kraft (NBSK) pulp mill located on the east coast of Vancouver Island near Nanaimo, British Columbia. The mill was one of Canada's largest market pulp producers with a rated capacity of 400,000 annual metric tons. The mill had about 530 employees most of whom are represented by the Pulp, Paper and Woodworkers of Canada Local No. 8.

Residents of the city of Nanaimo have expressed great dismay at the possibility of the mill being permanently shut down, and the land used for development.

Forestry in China

Sino-Forest Products

On August 11 a company statement announced the signing of an agreement to acquire 200,000 hectares of non-state-owned plantation through Sino-Panel (Asia) Inc., its wholly-owned subsidiary. "The price is not to exceed US\$51.40 per cubic meter (m3) over a 10-year period. The plantations include mature pine, Chinese fir and eucalyptus trees with an estimated aggregate yeild of 20 to 24 million m3 of wood fibre."

Increased demand in China for logs and wood fibre as the economy expands prompted Sino-Forest's expansion. The Canadian company also plans to buy new timber stands as the Chinese government moves to nearly double high-yield plantations to 13 million hectares by 2015.

"We will continue to focus on acquiring standing timber and improving our operating practices," chief executive Allen Chan said in the statement. The company's average selling price for logs rose 7 per cent, excluding currency appreciation, compared with a year earlier, he said.

Sino-Forest expects wood-product prices in China to increase by as much as 10 per cent this year as Russia increases tariffs on exported logs and as reconstruction intensifies in Sichuan following that province's earthquakes in May, the company said.

Recent stumpage acquisition agreements in Guanxi and Fujian provinces give the company a higher assest valuation, making it attractive to investors. Brokers and analysts on three continents are issuing strong "buy" ratings. However, some caution is advised as log price trends in China are already far higher than they are in the U.S. As well, there is potential for costs to increase as volumes ramp higher in Hunan and Yunna, and for losses to occur as the company invests more in wood products and manufacturing.

Detractors express concern that there is a fundamental difference between natural forests (in Yunnan having substantial non-timber forest product value) and plantations (commonly referred to as green deserts).

