

MADISON'S LUMBER REPORTER

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News & Updates

Tembec Curtails Pulp Facilities

Fast on the heels of dismal 3Q 2008 results, Tembec Inc. announced this week two temporary pulp mill closures in Quebec and France, reducing output by 16,500 tonnes. The company's Temcell hardwood pulp mill in Temiscaming, QC, will be offline for one week, while its softwood kraft pulp mill in Tarascon, France, will be idled for two weeks.

This week European NBSK softwood kraft prices continued to slide, down US\$8.93 to US\$876.72 (still up US\$5.56 from the beginning of the year). SOURCE: www.foex.fi.

One day earlier Tembec's 3Q financial results were released, showing a loss of \$27 million from \$164 million a year ago, when it took a \$173 million charge for an idled paper mill in Louisiana. Sales fell to \$609 million from \$712 million as a result of lower volumes in all four of its operating segments: lumber, pulp, paper and chemicals.

News services in the United States were thrown into a bit of confusion Thursday when Tembec filed a chapter 15 petition. Several American news reports stated that the company was filing for bankruptcy protection, when in fact the filing was merely intended to give effect to a sanction order issued under the Canada Business Corporation Act and did not affect the rights of any creditors or shareholders.

According to a company statement, "The filing today simply closes a procedural loose end related to the recapitalization" said James Lopez, President and CEO of Tembec. "It is not in any way a material event and does not in any way affect the business or the financial condition or anything else related to the newly recapitalized corporation."

Japanese Spruce Imports

June housing starts in Japan showed the only growth to be in wood-framed homes, up for the third straight month, by 6 per cent. Local factories in producing centres announced deficits in WSPF 2x4 lumber. READ MORE

Nanaimo Forest Products Meets Deadline

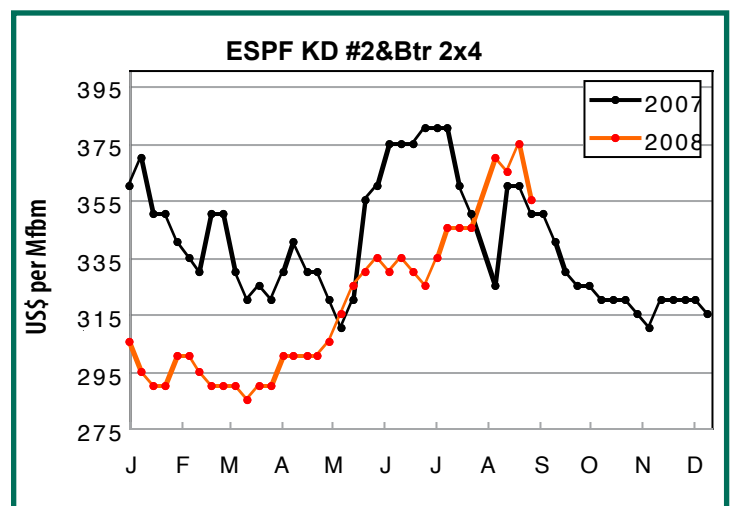
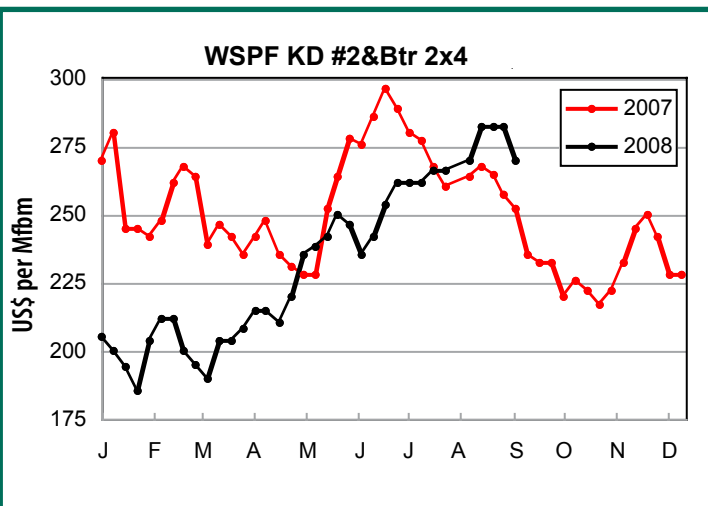
Just a couple of weeks after the bankrupt Pope & Talbot's former Mackenzie pulp mill was sold to an Alberta real estate company, which intends to reopen the plant immediately, the sale of Harmac - another former P&T pulp mill - in Nanaimo was complete.

Despite objections by receiver PricewaterhouseCoopers and a higher bid by an aggressive prospective purchaser, a partnership headed by an employee group completed its purchase. READ MORE

Conifex Inc's Future Plans

Yet more progress with another former Pope & Talbot facility, this time a primary mill in Fort St. James, BC, was made when receiver PricewaterhouseCoopers announced it would be handing over the keys to the mill to Conifex.

Newly formed in 2006 with the intention to buy \$266 million in assets from Domtar Corp, a deal which later fell through, Conifex has loudly announced its intention to invest heavily in Canadian mill operations during this time of low lumber prices. READ MORE



Key Prices

	This Week	Last Week	Change	Month Ago	Change	Year Ago	Change
WSPF KD R/L 2x4	270	282	-12	266	+4	252	+18
WSPF KD R/L 2x6	295	304	-9	270	+25	276	+19
WSPF KD R/L 2x8	300	298	+2	280	+20	265	+35
WSPF KD R/L 2x10	292	305	-13	285	+7	355	-63
WSPF KD PET 2x4 Stud	225	220	+5	218	+7	270	-45
Douglas Fir Green R/L 2x4	190	187	+3	185	+5	226	-36
Douglas Fir Green R/L 2x10	240	250	-10	230	+10	305	-65
ESPF KD 2x4 8ft Stud	281	295	-14	305	-24	335	-54
OSB Ontario 7/16" (CDN\$)	225	220	+5	205	+20	190	+35

Weekly News

WSPF 2x4's Into Japan

CONTINUED Demand for wood framed apartments, which are used as temporary residences for students and employees working away from home, has been on the rise. Businesses that construct apartments for rent are amongst the only builders in Japan currently showing favourable financial results.

The Japanese import price of Canadian SPF dimension lumber levelled off in August to US\$465 mfbm for 2x4 to 2x8, and to US\$565 mfbm for 2x10's. However major curtailments and production cuts across Canada are causing a potential threat to import supply for Japan.

US Forest Products Sector

A U.N. Economic Commission for Europe (UNECE) report released on August said that the US housing market crash has hit the North American forest prod-

ucts sector, with the price of some wood products falling to a 17-year low. The UNECE, which covers North America, Europe and the former Soviet Union, said in its Forest Products Annual Market Review that prices for some products such as sawn wood had fallen in North America to their lowest levels since 1991. The unprecedented drop of more than 50 per cent in US 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.

An 11 per cent fall in North American output to 109 million cubic meters in 2007 meant that European production was greater than that of North America for the first time, the report explained. The report noted that wood costs for the global pulp industry have increased to new records in 2008, with the biggest increases seen

for softwood fiber in the western United States, Spain, Chile, Finland and Japan. Higher energy costs have also pushed up pulp and paper prices.

The European construction market is forecast to continue falling to the end of 2010, driven by a dramatic reduction in new residential construction in western Europe, after falling 2 percent in 2007 from its 2006 peak. European sawmill revenues fell in mid 2007 after a profitable 2006, putting the industry in a more difficult financial situation by the middle of this year.

Chinese demand for raw materials is providing some support to producers, but Chinese processors are increasingly present as competitors for finished products. Expanding capacity in China is having a huge impact on paper and paperboard markets and global competition for wood and pulp, while the weaker dollar has boosted US exports.

For the fall report visit www.unece.org/trade/timber.



Dimension Lumber Ready for Shipment

Calendar

September 2008

Alberta Forest Products Association 62nd AGM

Sept 28 to Oct 3 - Jasper, AB
<http://www.albertaforestproducts.ca>

September 2008

SIBO Industrial Woodworking Show

October 23 to 25 - Laval, QC

Nanaimo Forest Products

Harmac Pulp Mill

The Sampson Group, a Vancouver-based family company involved in oil and gas exploration and development in

by Kéta Kosman

BC, joined in the bid to restart and operate the aging

mill. Other partners include a group of Harmac's employees and managers, Williams Lake-based Pioneer Log Homes and Fraser Valley construction company Totzauer Holdings. The four partner groups that make up Nanaimo Forest Products became the proud new owners of the Harmac pulp mill on August 29, meeting the court-ordered deadline to come up with the \$13.2 million purchase price.

Levi Sampson, from the Sampson Group and now the official spokesman for the NFP, said all aspects of the deal came together in meeting the August 29 deadline. Sampson said the NFP is putting together a board of directors of eight to 10 members involving all four investor groups, each expected to own 25% of the mill. NFP hopes that with the deal inked last month with Western Forest Products to continue to provide vital

wood fibre to Harmac, combined with wood chips shipped in from Pioneer Log Homes operations and a portable chipper set up at the mill site by Totzauer, Harmac should have enough fibre to start up at least one line this fall. Sampson said while NFP will focus at first on starting up production of its traditional northern bleached softwood kraft pulp product, the company doesn't intend to "turn a blind eye" to other options at the mill and its property.

Workers will each be expected to pay \$10,000 up front before beginning their jobs, and the rest in of the \$25,000 investment will be made in \$5,000 installments that will be paid over time. The total contribution from the workers toward NFP's successful bid for the mill is expected to be about \$7 million. About 160 workers will be called back to work in the beginning of operations that will see one of the three lines at the mill producing northern bleached softwood kraft pulp, and approximately 220 workers will be required when the mill expands to two lines at a time yet to be determined. All rehired workers must also comply with the decision of NFP to eliminate the potential liability for outstanding vacation pay owed to Harmac employees, estimated to be about \$6 million.

Canadian Lumber Investment

"Buy Low"

Now could not be a better time to start a forestry company, according to Conifex Inc. Chair and CEO Ken Shields. The past Director of TimberWest Forest Corp, Slocan Forest Products Ltd. and Pacifica Papers Inc. and non-executive Chair of Raymond James believes a bonanza is in the making. He told the Globe and Mail in a July interview that, "We expect the supply of lumber to be contracting at the same time demand grows. What we wanted to do was get a position now when our entry costs are modest compared with what they have been and be well positioned for the turn, when it comes." Conifex aims to reach a capacity of one million board feet in three years, said Shields.

This summer Conifex offered \$12.8 million for the bankrupt Pope & Talbot's former Fort St. James mill in northern British Columbia. The deal also include \$3 million in liabilities, including reforestation and environmental expenses. Receiver Price-WaterhouseCoopers transferred ownership to the company on August 22. The timber license was signed and approved on August 15. The sale means that Conifex will be able to commence logging and start up the saw-mill operations as soon as possible.



Nanaimo's Harmac Pulp Mill

www.canada.com