



MADISON'S TIMBER PREVIEW

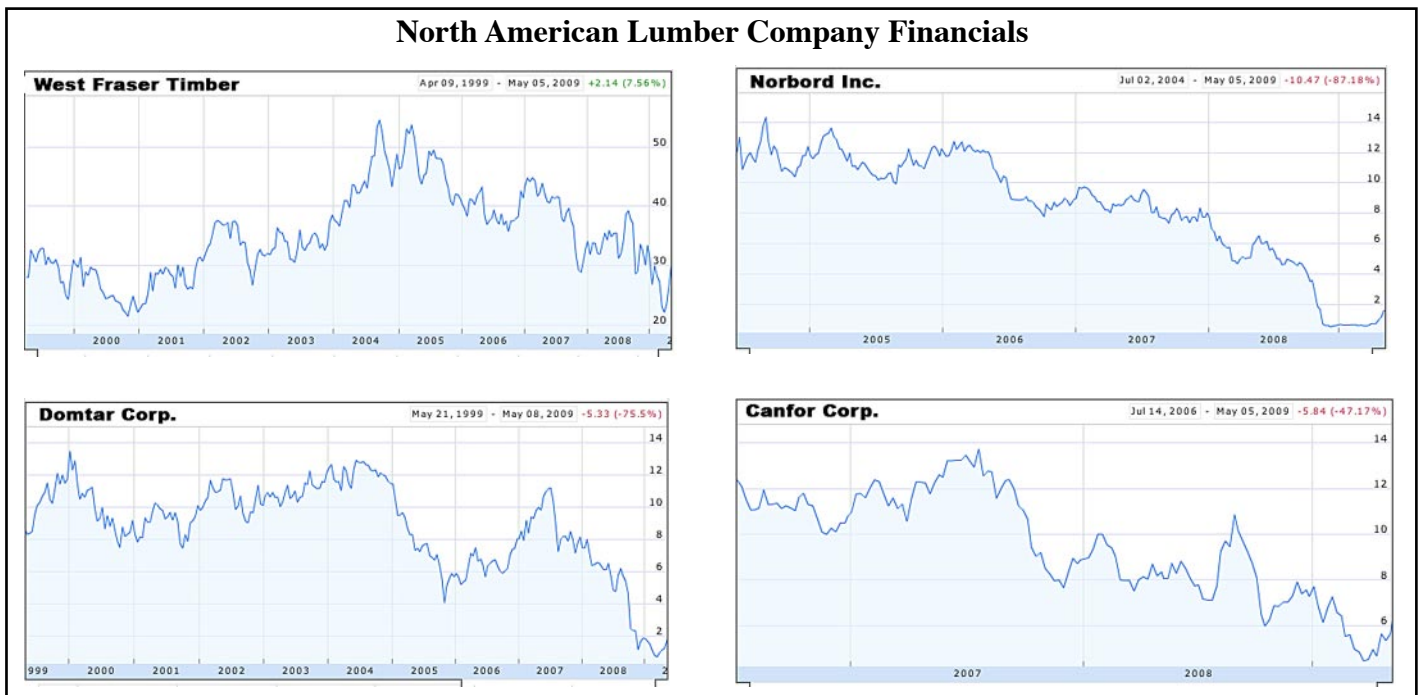
PO Box 2486, Vancouver, BC V6B 3W7 ✦ Tel: 604-984-6838 ✦ Email: madrep@shawcable.com ✦ Web: www.madisonsreport.com

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As expected, North American forest company quarterly results continue to be dismal in 1Q 2009. While it is largely acknowledged by the big producers that the continued downturn of the US housing market is hurting the industry, they conveniently fail to mention that it was their own rampant overproduction at the end of 2007, continuing through 2008 that caused both lumber prices and their own company stock values to plummet. The lesson to be learned here, it seems obvious, is that dependance by an entire industry on one customer, on one country, on one sector, is unwise. Had Canadian lumber producers moved toward more value-added, more secondary remanufacturing, during the good times rather than finding ways to pump out 2x4's more quickly, the US housing downturn would not have hit the industry as hard. The worst of it is that almost all companies have already acknowledged that 2Q 2009 will show even worse results.

In the same regard, had companies moved into new markets to search for new customers the crisis in the US economy would not have had such a pervasive effect. As it is, Canadian lumber producers fell behind other regions in terms of selling into new markets, with new products. Europe, with a healthy demand for wood products, is buying from emerging markets rather than from North America. While it is true that the bulk of European demand is for logs rather than for lumber, specialty wood products - particularly from hardwoods - are very hot sellers in Europe. Canadian lumber producers will now have to struggle for a small portion of market share. Meanwhile Japanese specialty wood customers have deliberately turned to European producers because they can get what they want, while they find that North American producers tend to dictate both product availability and quality. In Japan, supply side lumber production is not welcome.

North American Lumber Company Financials



The first of the public lumber and panel producers to report first quarter results for 2009 was West Fraser. Reporting a 20 per cent bigger quarterly loss than for the same period one year earlier, the company had a

net loss of \$83 million on sales of \$619. That compared with a loss of \$69 million on \$772 million in sales in 1Q 2008. Largely responsible for the big difference was a strong Canadian dollar for part of the reporting period. The company also said its operating loss was \$90 million, compared with \$103 million a year earlier. West Fraser plans to continue major curtailments, including at its Kitimat and Cariboo facilities in British Columbia, in an effort to stem further growth in losses.

Next, on April 29, was Norbord, reporting a loss of US\$22 million on sales of US\$156 million in 1Q 2009. Norbord recorded a loss of US\$31 million on sales of US\$234 for the same time period one year earlier. The modest improvement reflected a significant decline in company-wide manufacturing input costs and stronger year-over-year North American OSB prices. North American Central benchmark OSB prices averaged US\$154 per msf versus US\$170 in 4Q 2008 and US\$137 in 1Q 2008. Production curtailments to 60 per cent of capacity and production cost reductions by 6 per cent are also credited for the improvement.

Tembec broke its news also on April 29, with results showing a net loss of \$99 million on sales at \$417 million for 1Q 2009, loss increased by \$49 million to a net loss of \$59 million on \$593 million in sales for the same period of the prior year. Earnings were negative \$63 million for the three-month period ended March 28, 2009, as compared to negative of \$1 million a year ago and of \$6 million in the prior quarter. The March 2009 quarterly financial results include an unfavourable adjustment of \$20 million relating to the carrying values of logs, lumber and pulp inventories. In February 2008, Tembec underwent a recapitalization plan to retire \$1.2 billion in debt in exchange for acquiring control over 95 per cent of the company's equity. The deal left the company with about \$250 million in debt, and dropped its interest charges by two-thirds to \$37 million a year.

Reporting on April 30 was Canfor, with a net loss of \$59 million on sales of \$488 million for the 1Q 2009, compared to a net loss of \$85.4 million on sales of \$648.5 million for the first quarter of 2008. After taking account of all one-time items affecting comparability, the company reported an adjusted net loss for the 1Q of 2009 of \$78 million compared to similarly adjusted net losses of \$89.5 million for the same time period one year earlier. One-time items included a gain of \$38 million from the sale of the Queensboro Mill located at New Westminster, BC, and a loss of \$12.4 million due to the weakening Canadian dollar and lower natural gas prices. Canfor has curtailed production by 60 per cent, or 95 mmfbm, in an effort to stem further losses. Market-related downtime was also taken at the company's Taylor Pulp mill and at Canfor Pulp Limited Partnership, in which Canfor holds just over 50 per cent interest.

On the first of May Domtar reported a net loss of US\$45 million on sales of US\$1.3 billion for the 1Q of 2009 compared to net earnings of US\$36 million on sales of US\$1.75 billion for the same time period in 2008. Excluding one time items, the company lost US\$38 million for 1Q 2009 compared to earnings of US\$25 million for the 1Q 2008. Also in 1Q 2009, Domtar earned US\$46 million in tax credits from the new US Highway Act, and had a charge of US\$35 million due to write-downs at its Plymouth, NC, mill. Domtar has effected downtime and slowdowns equaling 185 thousand tons of paper production. In addition, 75 thousand metric tonnes of pulp have been taken out of production by the indefinite closure of the Woodland, ME, pulp mill and ten-week idling of the Dryden, ON, pulp mill.

Next issue; Weyerhaeuser, Louisiana Pacific, TimberWest, and whoever else reports in the meantime.

Keta Kosman
Publisher
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www.madisonsreport.com
604 984-6838