



MADISON'S TIMBER PREVIEW

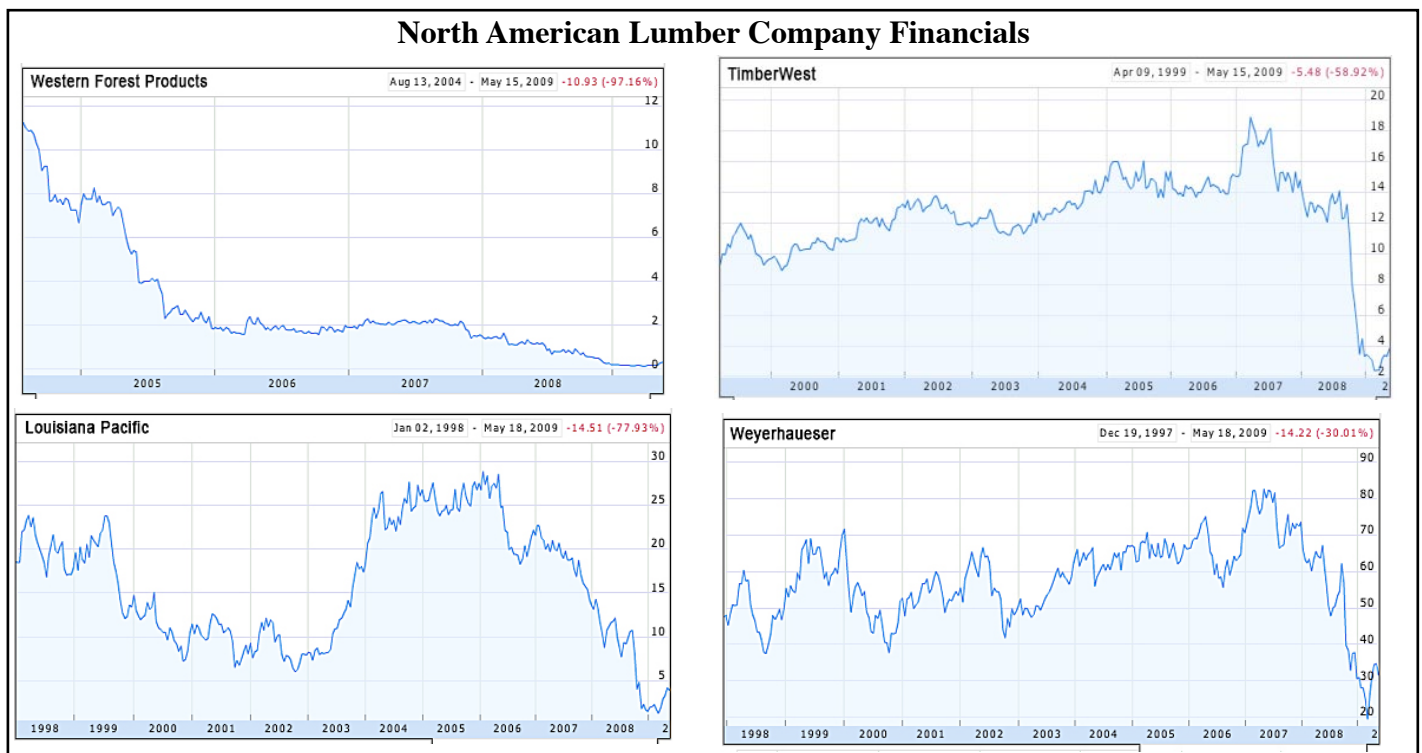
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With April housing starts in the US showing a not surprising decline, it is now largely acknowledged by lumber industry observers, both casual and involved, that home building in the US will not rebound significantly through the end of 2009. While some analysts' predictions were buoyed by an increase in housing starts and permits in March, many others felt it was too early to announce a renewal in US home building. Any remaining lumber mills that held faint hope of a healthy return of lumber demand in 3Q this year are forced to acknowledge this new reality. When viewed in hindsight, the North American lumber industry's slow response, even ignorance, to the abysmal state of the US real estate market since its collapse in 2006 seems remiss at best.

Despite this latest bit of bad news, financial analysts globally are quick to point out that the worst is over, that the "bottom" has been reached and the economic turn-around is in sight. The question nobody can answer just yet is, 'how long will the bottom last?'. As long as there continue to be negative indicators, from housing starts to unemployment, that question can not precisely be answered.

The last issue of your Madison's Timber Preview (May 08, 2009) examined the 1Q 2009 results for West Fraser Timber, Norbord, Domtar and Canfor. This week Madison's looks at Weyerhaeuser, TimberWest, Louisiana Pacific, and Western Forest Products.



In a rather delayed reaction to the late-2006 drop in demand for framing lumber and panel commodities, Weyerhaeuser Company announced major mill closures and curtailments in mid-March 2009. Three veneer plants in AL and LA, a panel plant in KY were closed indefinitely, plus more, totalling nine locations and affecting 480 employees. The following week, on March 17, the company announced closures at two lumber mills in OK and OR, putting 307 employees out of work. In all Weyerhaeuser has closed 10 wood product manufacturers since January 2009 while all other sites are curtailed. The closures total 870 million board feet of capacity, and the curtailments take another 280 million board feet out of production, for a total of 1.1 billion board feet in 2009.

These cost-cutting efforts may have been too late to show significantly in Weyerhaeuser's 1Q 2009 results, released May 05, but could do well for the company at year-end. Weyerhaeuser's first-quarter net loss widened to \$264 million, compared with a loss of \$148 million in the same quarter last year. The company has now lost money in five of the six quarters since December 2007. Its one profitable quarter benefited from the sale of its huge packaging business to rival International Paper. Revenue at its wood products business fell 44 per cent to \$542 million.

TimberWest Forest Corp. is uniquely positioned to ride out the current down lumber market, as Vancouver Island's largest private landowner. Of its 324,000 hectares, the company has determined that 54,230 hectares have potential for uses other than forestry. Of that, 32,000 hectares are suitable as core development land. After two solid years of planning and community consultation, TimberWest intends to parcel off and sell the land over the next couple of decades.

On May 06, 2009 the company announced poor 1Q results. TimberWest estimated its sawmill production to be 36 per cent lower than in 1Q 2008, with mills operating at about 55 per cent of capacity this year. In addition, logging production on the coast is estimated to be down 44 per cent from 1Q 2008. Distributable cash loss for 1Q 2009 was \$15.3 million, compared to \$3.9 million for the same period in 2008. Excluding refinancing charges of \$8.9 million, distributable cash loss for the quarter was \$6.4 million.

On May 14, 2009 TimberWest closed several real estate deals on Vancouver Island, earning \$4 million on 500 hectares.

On March 04, 2009 Louisiana Pacific announced the launch of major debt offering, by March 10 the company earned \$375 million by selling 18.4 million shares of common stock that are expected to yield 19 per cent annually. On March 23, the Bank of America, already a major shareholder, made \$100 million available to LP to refinance existing debt and for working capital purposes.

LP announced 1Q 2009 results on May 6, 2009, reporting a narrowed loss of \$30.4 million compared with a loss of \$46.4 million one year earlier. Sales for the company fell 41 per cent, to \$204.6 million, from \$349.4 million in the previous year.

LP voluntarily recalled approximately 48 million linear feet of composite decking in various sizes due to safety concerns on May 13, 2009. The company received 37 reports of composite decks breaking, resulting in 14 injuries, including a broken wrist, sprained ankle, minor lacerations and bruises.

Due to very low demand for product and poor market conditions, LP laid off 70 employees at its East River, NS plant on May 19, 2009, and on May 21, 2009 announced an indefinite curtailment of its New Limerick, ME plant, putting 43 people out of work.

On May 11, 2009 Western Forest Products reported a net loss for 1Q 2009 amounting to \$25.5 million on sales of \$152.6 million, compared to a year-earlier loss of \$22.6 million on sales of \$203.3 million. The company experienced a 25 per cent drop in wood product sales for the quarter and is operating at about 50 per cent capacity, with three of its mills currently shut. 1Q cedar lumber sales fell 41 per cent compared with the same period in 2008.

To preserve liquidity and avoid producing in unprofitable markets, Western shut down its logging and manufacturing operations and instead sold product from its inventory. Log production fell 62 per cent and lumber production fell 44 per cent in the first quarter compared with production in the same period in 2008. Western is still looking for a new president and CEO, and also said chair John MacIntyre is stepping down.

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