



TimberWest Forest Corp
A Vision Towards A Sustainable New-Economy Forestry Company

Rick Jaccard
ICS Dry Bulk & Commodities Seminar
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About TimberWest

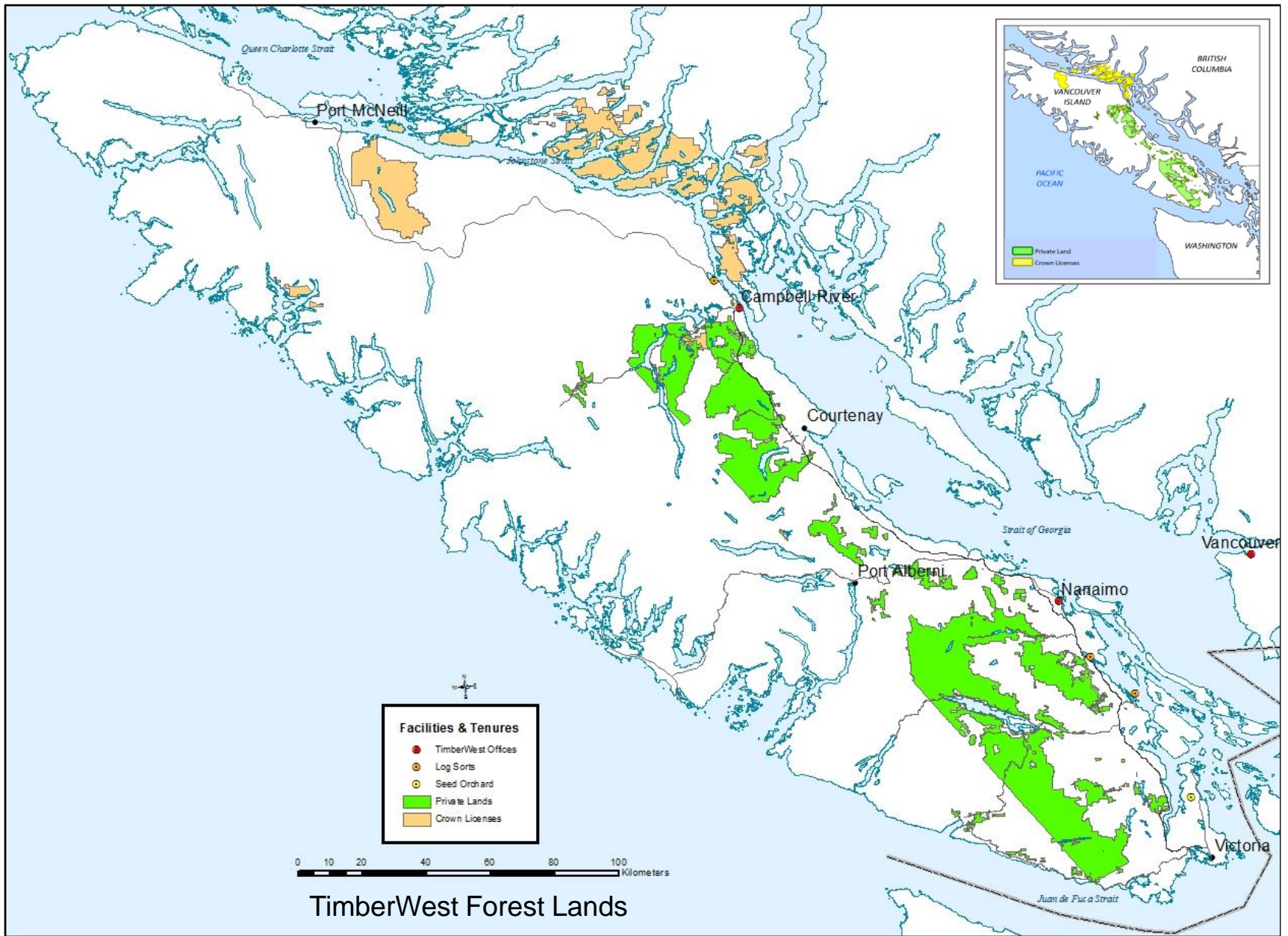
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TimberWest is Western Canada's largest private managed forest land owner with 325,400 ha/804,200 acres on the east coast of Vancouver Island.

- Private land sustainable harvest = 1.9 million m³/year
- Renewable Crown harvest rights = 700,000 m³/year

TimberWest has identified certain lands as “Higher and Better Use” and markets and develops real estate through its Couverdon brand.





TimberWest - Ownership

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TimberWest is privately owned by two leading Canadian pension funds:

- BC Investment Management Corporation (bcIMC)
- Public Sector Pension Investment Board (PSP)

bcIMC and PSP acquired TimberWest in June 2011



TimberWest - Ownership

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TimberWest's Owners:

- Have a long-term investment horizon
- Are committed to sustainable forest management practices
- Have access to capital and a mandate for growth
- Are committed to pursuing new investment and opportunities, including timberland acquisition and alternative investment that maximize return to the stump:
 - Pellet Plant Projects
 - Wind Projects
 - Run-of-River Power Projects
 - Carbon Projects
 - Real Estate



TimberWest – Employment

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TimberWest runs fully contracted harvesting operations and provides 1,000 direct jobs and 2,000 indirect jobs to workers on Vancouver Island.

- Biologists, engineers, mechanics, planners, foresters, road builders, equipment operators, loggers, truckers, scalers, planters, and silviculture crews are just some of the direct jobs

TimberWest actively seeks new markets and continues to focus on opportunities in Asia.

- Exports are critical to TimberWest's ability to continue to operate and employ local workers



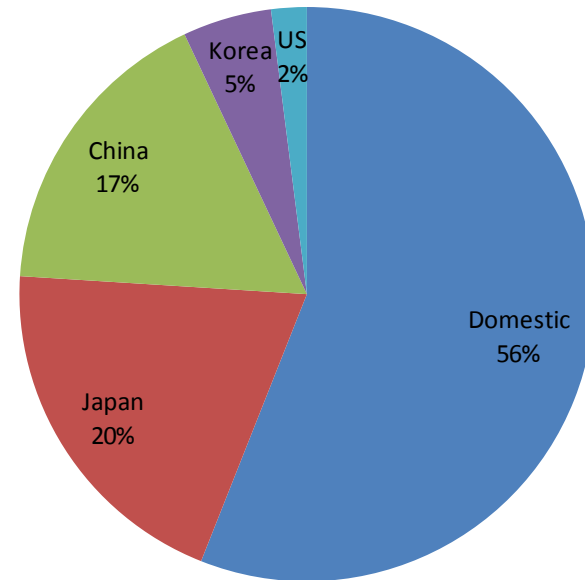
Markets

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~ 56% of TimberWest's harvest volume is sold domestically to local processing facilities

~ 44% of TimberWest's harvest volume is sold to export markets

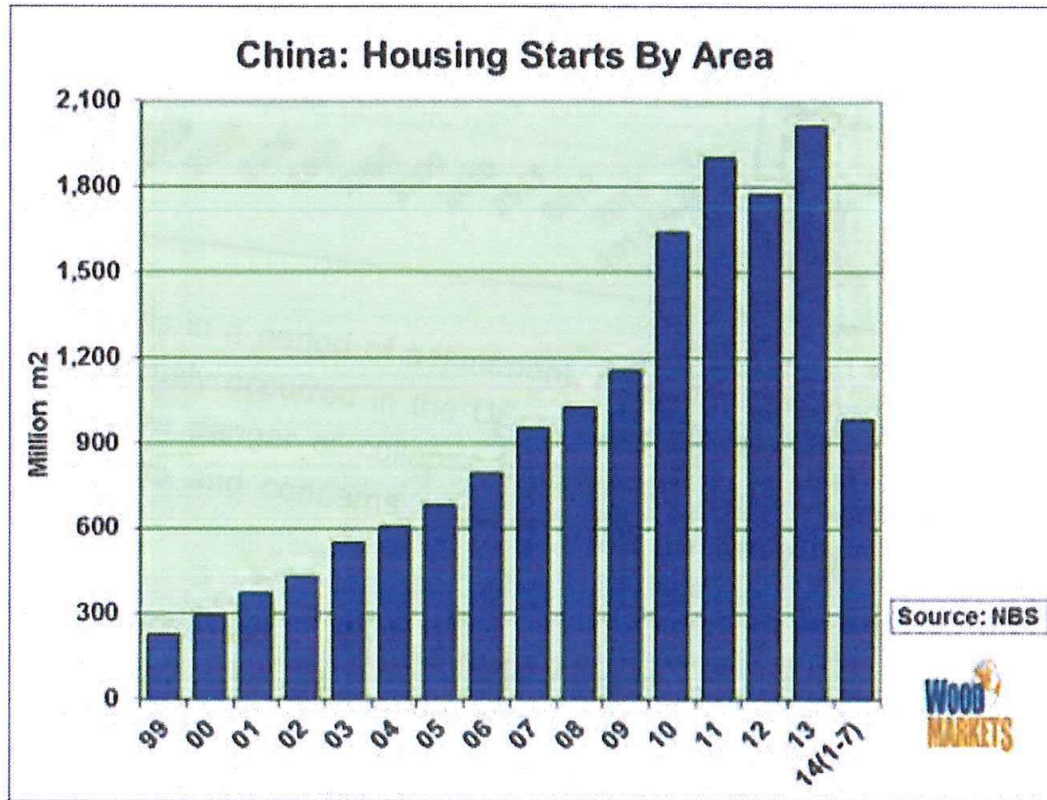
TimberWest sales volumes by country (2014 YTD)



Considered to be a long term growth opportunity for softwood logs:

- 880 million m³ annual fiber demand
- 380 million m³ from non roundwood sources / substitutes (recycled, residues)
- 80 million m³ of domestic supply
- 150 million m³ of imported volume
- Large remaining fiber deficit – increase in domestic harvest?

33 million m³ of softwoods imported in 2013 representing 1.7 x total BC Coastal harvest – BC only 2.7 million.



What's driving the demand?

- Robust GDP target ~ 7.5% (13% housing sector)
- Urbanization policies ~ 15-18 million/yr
- Emerging middle class ~ 1 billion by 2030

Strong demand has resulted in substantial run up in log pricing:

- Radiata pine A-30 log sort reached a peak price point of US\$162/m³
- Opened the door to incremental supply regions (US South, Ukraine, France, Romania, etc)

At same time, demand has fallen off due to sluggish real estate market:

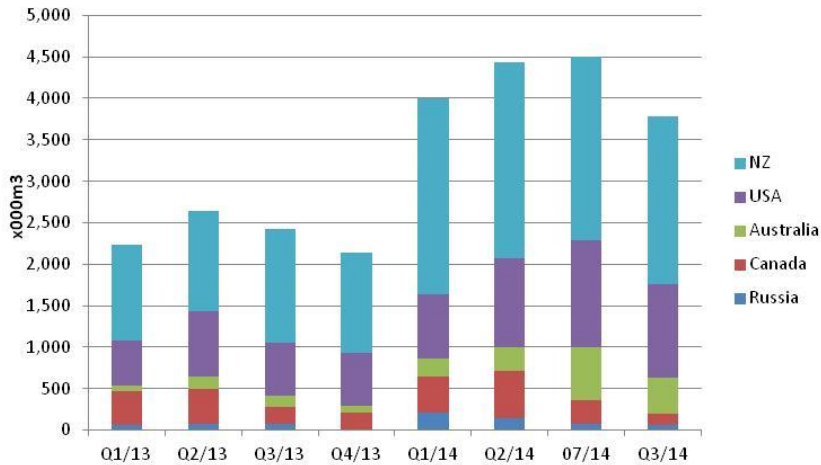
- High real estate prices
- Government imposed restrictions on real estate investments
- Tighter access to credit for developers
- Increased supply of unsold housing

Housing starts expected to come off from 2.0 billion m² to 1.8 billion m².

China

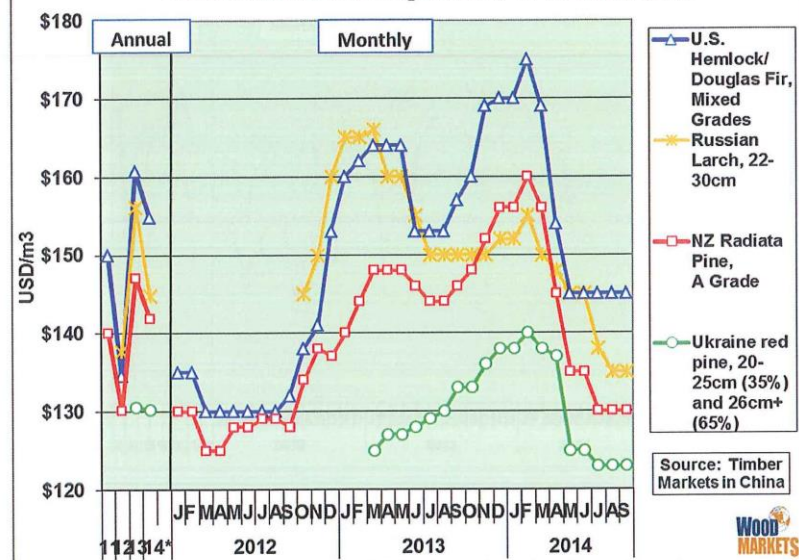
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China Port Inventories (Softwood)



- Port inventory increased to 4.5 million m³ since CNY
- Takeaway rates have declined
- Price decline (Radiata @ US\$130/m³) and reduced shipments

China: Softwood Log Prices, CFR China port



Despite the current situation, we remain optimistic about the China market for logs:

In short term:

- Government is attempting to stimulate housing market
- Relaxation of real estate investment restrictions
- Favorable lending terms for first time home buyers
- Lower down payment requirements

In longer term:

- Desire to maintain economic growth (GDP)
- Continued urbanization policies (60% by 2020)
- Relaxation of 1 child per family policy
- Commitment social housing (8 million units/year)
- Massive development expected in railway infrastructure

Fiber deficit – where are they going to source this material?

- New Zealand constrained by port capacity
- Russia constrained by poor infrastructure and lack of access to economic sources of timber
- United States constrained by recovery of housing market and internal demand
- Canada constrained by public policy (Log Export Restrictions) and lower available volume (MPB)

Outlook: Continued difficult times through H1/15 until supply / demand is rebalanced followed by recovery in H2/15. Canadian logs likely to be distributed over more ports to avoid congestion / demurrage.

Although Japan represents TimberWest's #1 Asian market, we see this market in a state of decline:

- Aging demographic
- Years of deflationary macroeconomic trend
- Log imports have declined by 8 million m³/year since 2004

2013 represented a stronger year for demand for North American logs (3.4 million m³):

- "Abenomics" designed to reverse deflation and stimulate growth
- Consumption tax increase in April 2014
- Pulled demand forward resulting in housing starts increasing to 980,000 units in 2013

- Now in the post consumption tax “hangover”
- 2014 housing starts expected to come in ~ 10% down from last year (860,000 units)
- Mills (plywood & lumber) have remained on reduced shifting for much of H2/14 as excess supply is being removed from the distribution chain
- Government incentives to utilize domestic species
- Veneer logs (80% of TW’s Japan business) price reductions of \$15/m³
- Sawlog (20%) price reduction up to \$30/m³
- Devaluation of the Yen increasing cost of imported logs (lowest in 6 years)
- TimberWest deliveries in H2/14 are down by 1 – 38 dwt vessel / month relative to H1/14

Outlook: TimberWest does not expect any significant improvement over the remainder of 2014, with continued weak demand persisting into Q1/15.

Recent fiscal policies around stimulus spending is not expected to move the dial in the short term.

However, another increase in the consumption tax (from 8-10%) in October 2015 has been talked about, which would likely bring forward some level of demand but not as significant as the last tax increase. But recent news ... recession, election ... is another tax increase in the cards?

Korean log market remains weak in H2/14:

- Sluggish overall economy with slow growth and low inflation
- Large spill over of volume resulting from over-supplied China market
- Large volume of European lumber is entering South Korea which is readily competing with North American logs

Central bank recently reduced interest rates to record low of 2% in addition to other stimulus measures

Outlook: Korea's overall level of demand and price trends will largely follow China. Any immediate recovery resulting from recent government initiatives will likely be muted by oversupply in the woods product sector. Likely flat market conditions are expected through Q1/15.

United States housing recovery has been slower than forecasted.

“Super Cycle” concept:

- US Housing starts back to normalized level of 1.5-1.6 million units/year
- BC Mountain Pine Beetle infestation run full course (AAC reductions)
- Harvest reductions in play in Ontario / Quebec
- Asian fiber deficit
- Increased demand for wood for power source

Now downplayed significantly – market showing “super cycle” like qualities.

All eyes on US housing starts:

- Reached a high of 2.0 million units pre-GFC (2005)
- Plummeted down to 0.55 million units during GFC (2009)
- Currently sitting at an annualized rate of ~ 1.0 million units

Slow steady growth over a longer period is better outcome than a short lived spike:

- 10%/annum is the current track
- Random Lengths Framing Lumber Composite Index currently sits at US\$377/mfbm
 - 20 of last 23 months > US\$355/mfbm resulting in 0% tax under SLA

- Log prices in the US PNW have been slowly recovering since July
- China slowdown has resulted in reduced vessel charters from PNW
- This month – 7 vessels compared to normal level of 15 vessels/month

Outlook: The recovery of US housing starts is forecasted to maintain its trajectory of 10% growth in 2015. This should support relatively strong log prices into Q1/15 which will continue to attract volume away from stagnant China market from the US PNW and possibly Canadian supply regions.



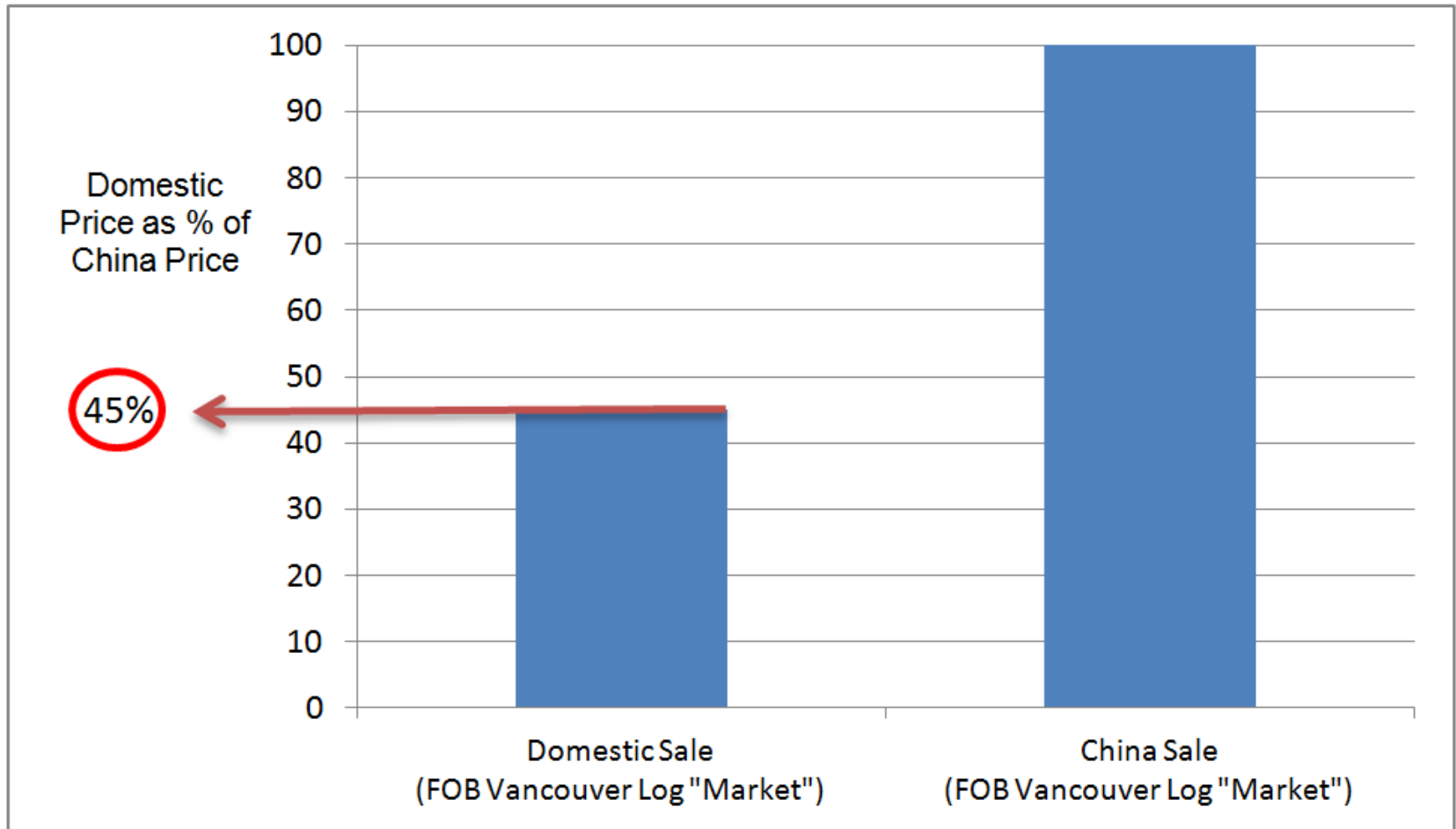
BC Log Export Restrictions (LER)

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- All logs exported from British Columbia must have a log export permit
- On Crown Land (95% of provincial forest land base), permits are issued by the Province. On the remaining privately owned lands, permits are issued by Federal government
- In both cases, regulation requires exporters to satisfy surplus test requiring all logs be first offered to domestic log processors (local mills have a ROFR on export logs)
- If domestic manufacturers offer on logs advertised for export then the seller is obligated to sell those logs on the domestic market
- Domestic pricing is reviewed for fairness by a government appointed committee (TEAC)
- Lacks negotiation, no competition
- Surplus test is unique to BC

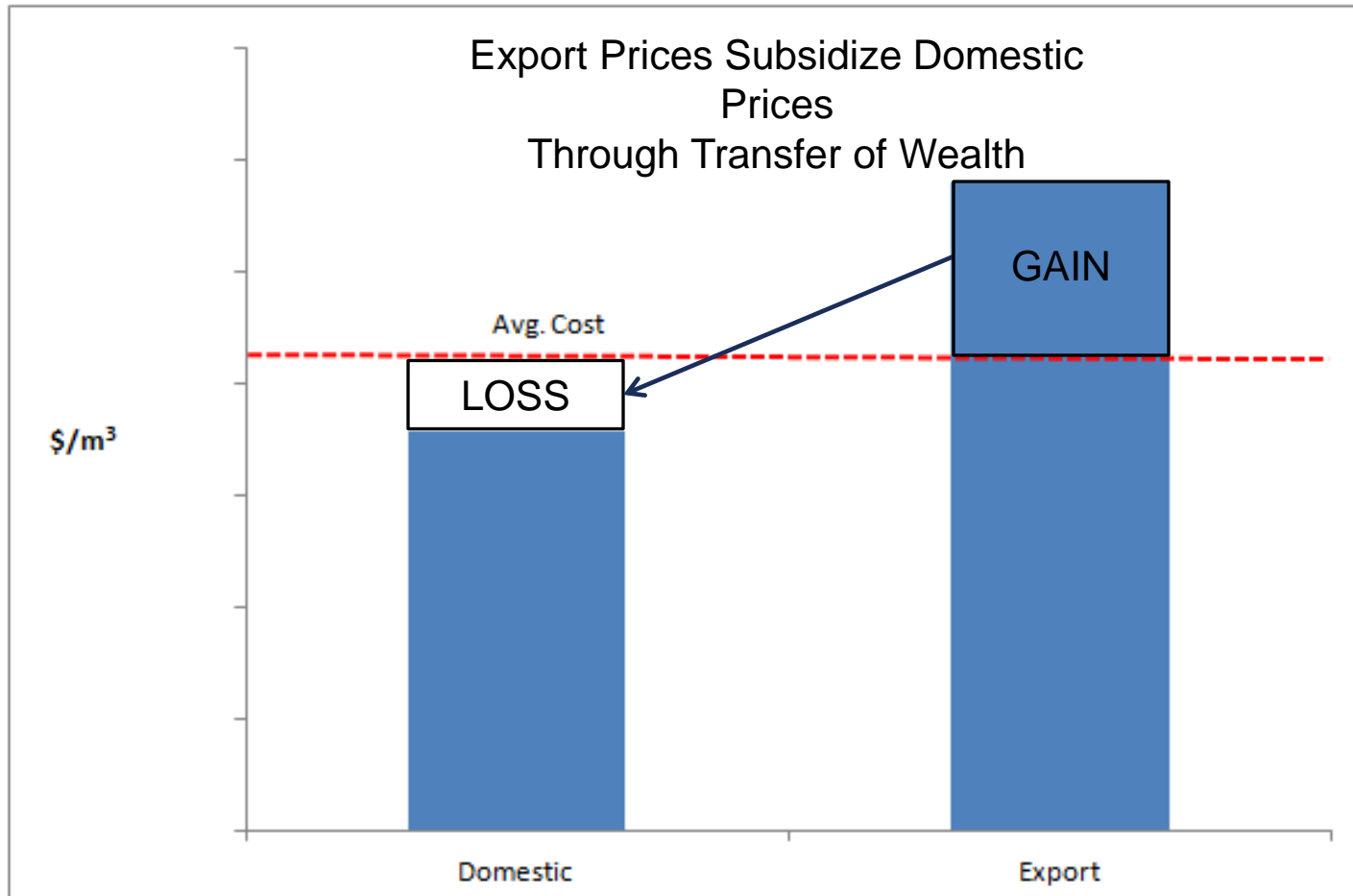
March 2014 Export Versus Domestic Hemlock Gang Price

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TimberWest 2013 Average Price Realizations (No Pulp/Cedar Sorts) Versus Costs

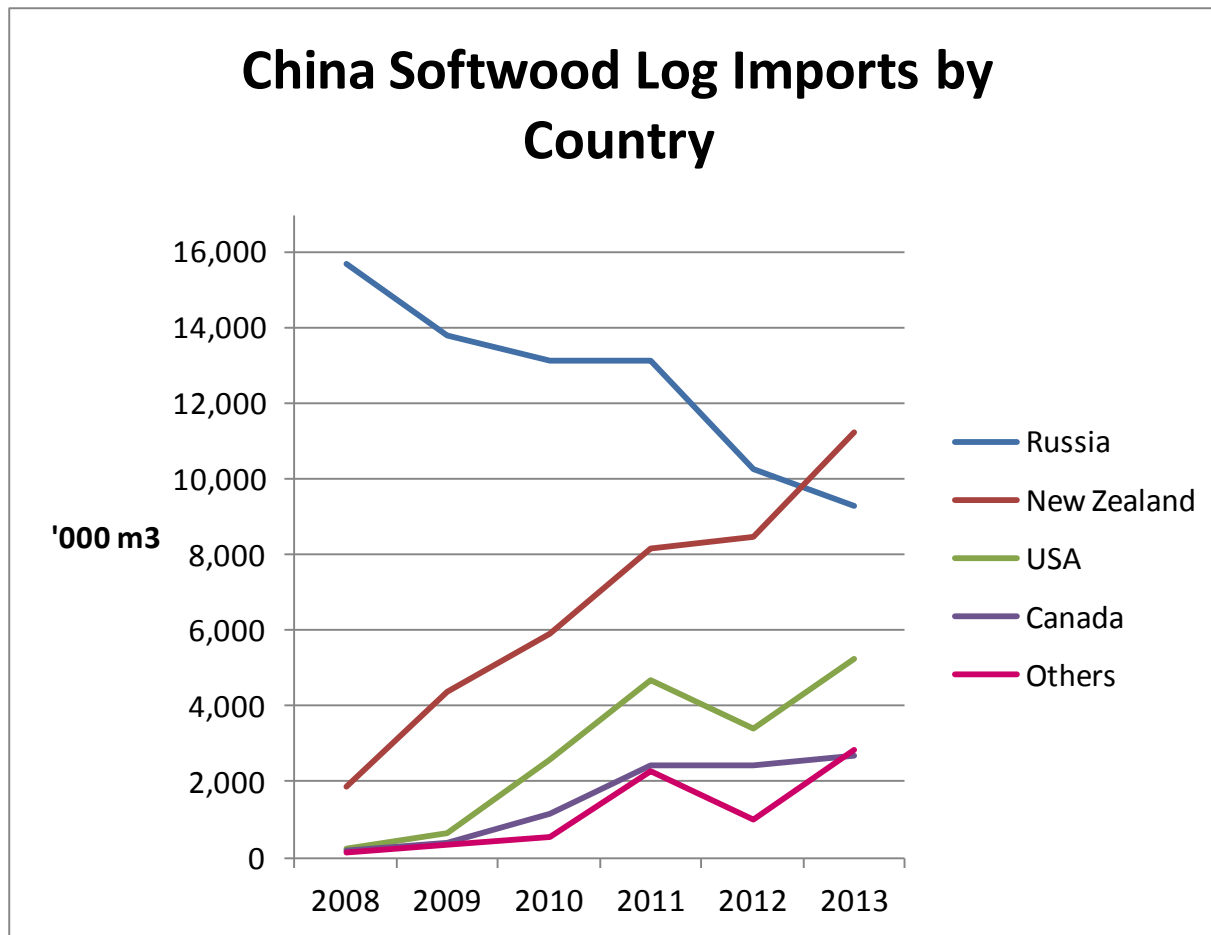
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**Actual relative prices and costs.*

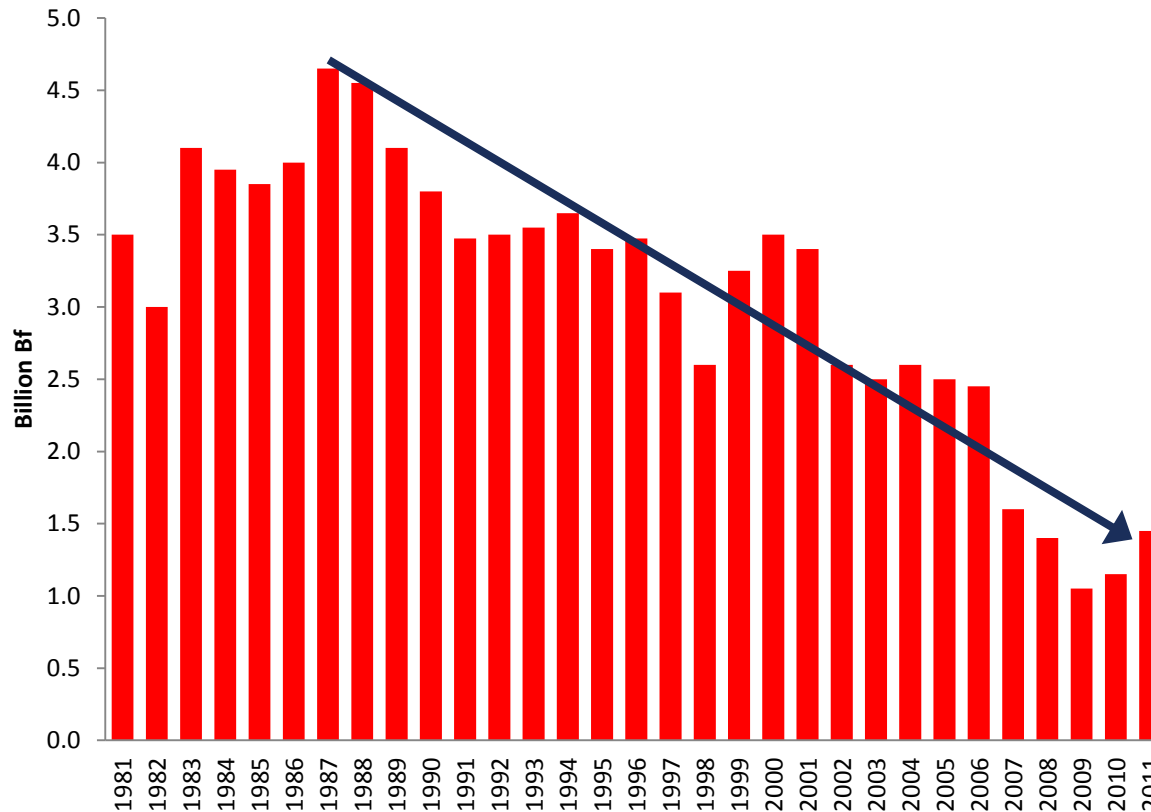
China Softwood Log Imports by Country

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BC Coast Softwood Lumber Production, In Spite of Subsidized Log Pricing

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Last 20 Years:
32 Mill Closures
~2.6 BBf capacity
closures

Today:
37 Sawmills
~2.1 BBf capacity

Source: WOOD Markets / Stats Canada



Effects of Log Export Restrictions

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- Transfer of wealth from owner of land and trees to domestic log processing industry, and forces landowners to sell logs at a loss
- Results in a direct subsidy to BC log processing industry
- Surplus test poses strict limits on volume to be exported, predicated by local demand
 - All 3 veneer plants in Coastal BC are undertaking expansion projects
 - Will require additional volume from Douglas-fir producers (TW and IT)
 - The healthier the US lumber / plywood market gets, the worse it will be
- Surplus test puts BC log producers at a competitive disadvantage to other jurisdictions (US private lands, New Zealand, Australia)
- Less volume will be available to export



Effects of Log Export Restrictions (LERs)

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From a shipping company's perspective, LERs result in reduced volume available for offshore markets:

- In 2013, TW chartered 21 vessels (CIF sales) in addition to a similar number of vessels associated with FOB sales
- Most charters have been in the Handysize 38 dwt size category

If the Coast (private and public) was relieved of Log Export Restrictions, estimates as high as 200 additional 32 dwt vessel charters/year phased in over time.

Fact: LER's are illegal under World Trade Organization Agreement and we believe will eventually be overturned by way of WTO challenge by a foreign government.

In the United States, LER's are viewed as an irritant to lumber trade relations with Canada. The current Softwood Lumber Agreement expires in 2015 and LER's may become a key negotiating point.



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Thank you