SASKATCHEWAN FORESTRY SECTOR OVERVIEW

October 2014

Saskatchewan

Presentation Content

- Forestry Development Branch
- Timber Resource
- Forest Industry Overview
- Current Sales, Exports and Markets
- Investment Climate and Export Potential

Ministry of the Economy
Forestry Development Branch

MANDATE

•Facilitate growth and development of Saskatchewan's forestry sector

KEY RESPONSIBILITIES:

•Investment attraction;

•Facilitate export market growth;

•Enhance industry competitiveness;

•Explore new forest products;

•Monitor and track key economic indicators;

•Ensure a market based and competitive timber royalty system; and

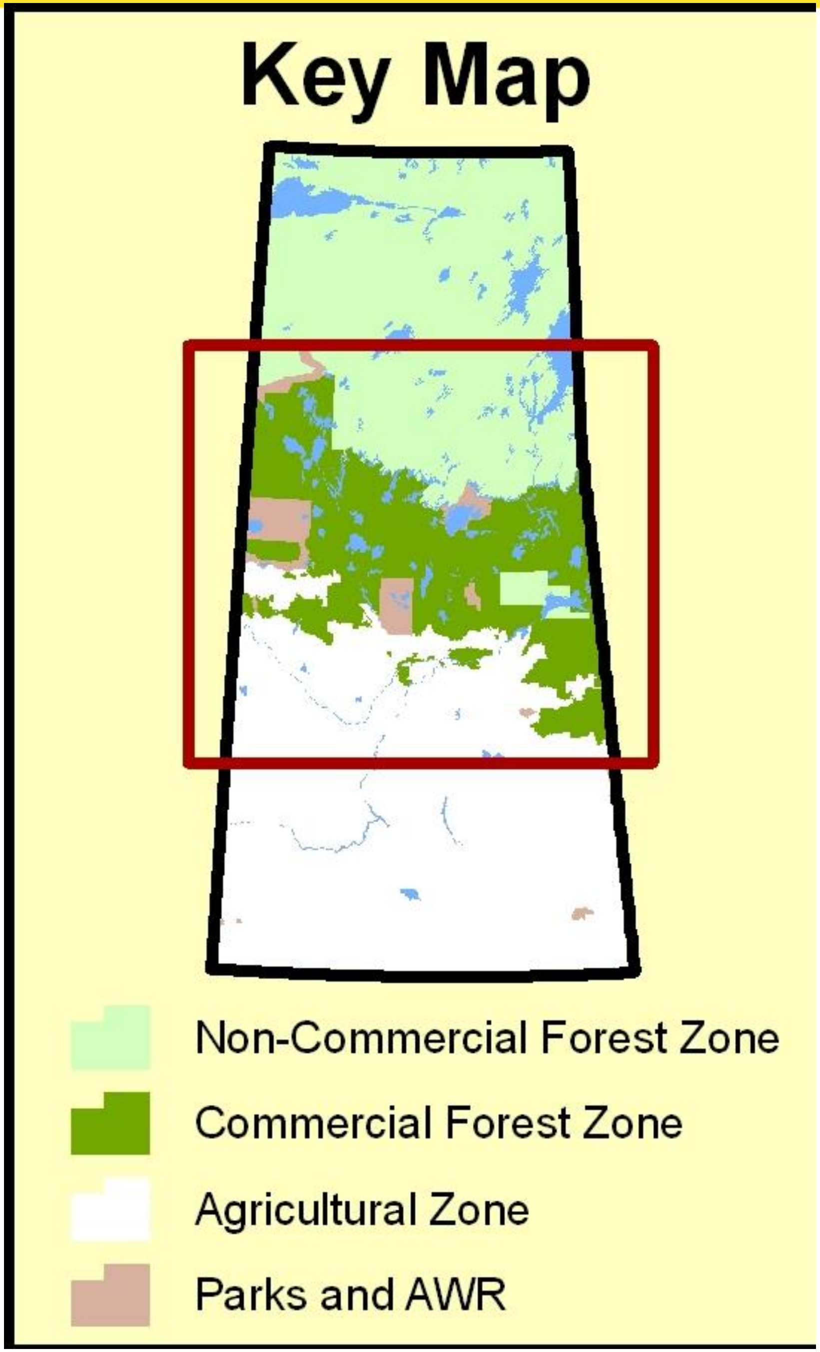
•Manage impacts created by trade agreements.

Ministry of the Economy
Forestry Development Branch

To Help Achieve its Mandate, Forestry Development Branch Works closely with:

- **The Forestry Industry, Wood Processing Companies, Saskatchewan Trade and Export Partnership (STEP), FPInnovations and other non-government organizations**
- **Ministry of Environment, Forest Service Branch**
  - **Responsible for management and regulation of Saskatchewan's provincial forests.**
- **Ministry of the Economy, First Nations, Metis and Northern Economic Development**
  - **Responsible for strengthening and expanding Aboriginal and Northern business opportunities**
- **Ministry of the Economy, Labour Market Development**
  - **To identify employment needs within the forestry sector and overcome shortages of workers that limit the sector's growth potential**
- **Saskatchewan and Canada's Trade Commissioners**
  - **To promote Saskatchewan's forest products and our industry's ability to operate competitively in the global market**

Saskatchewan's Timber Resource

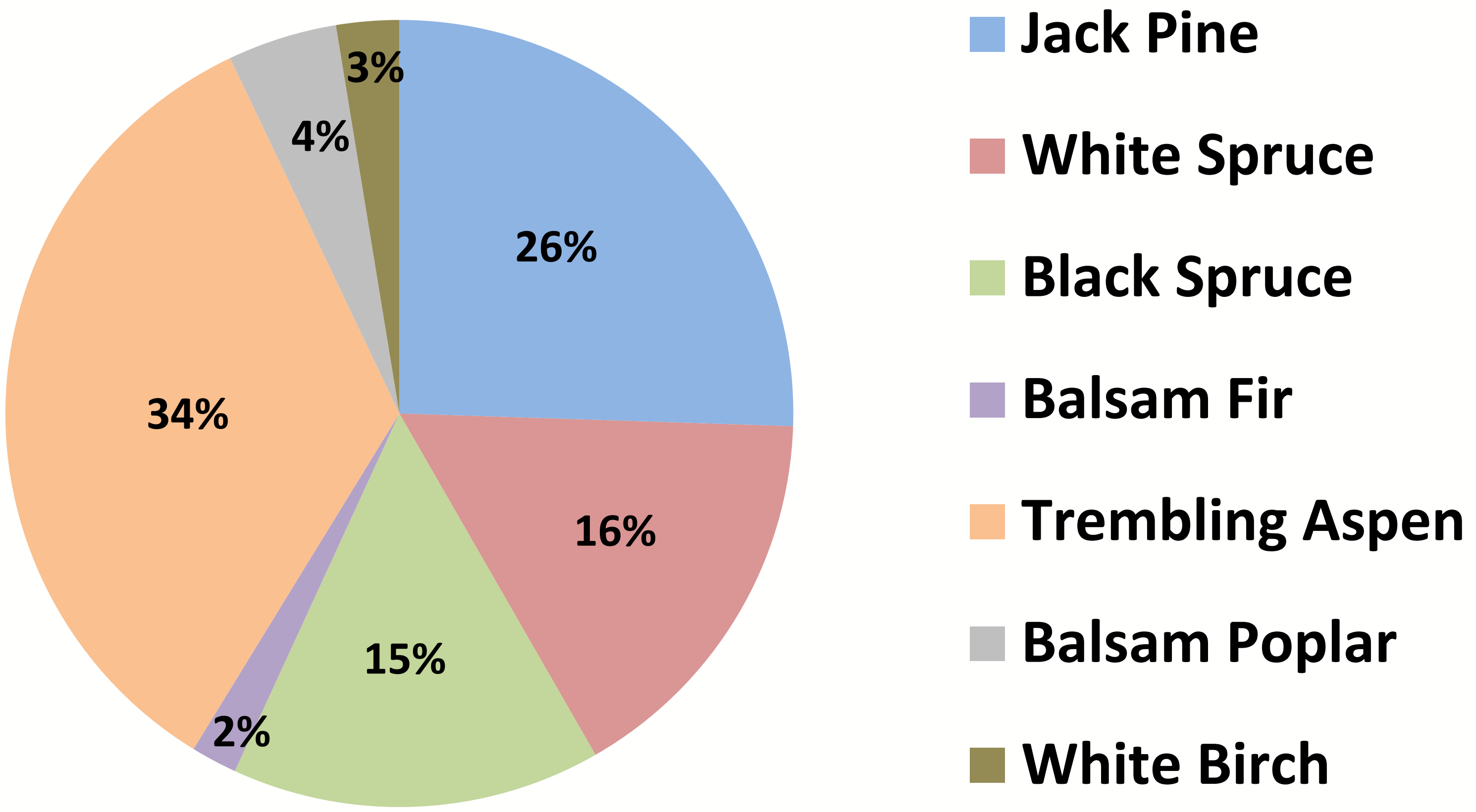


Timber Resource

- **Saskatchewan has 34.3 million hectares of forest**
- **Commercial Forest Zone contains 11.7 million hectares, of which 5.3 million hectares is productive forest and available for commercial timber harvesting**
- **Annual Allowable Cut is 8.2 million m^3**
  - **4.8 coniferous trees and 3.4 deciduous trees**

Commercial Trees Species

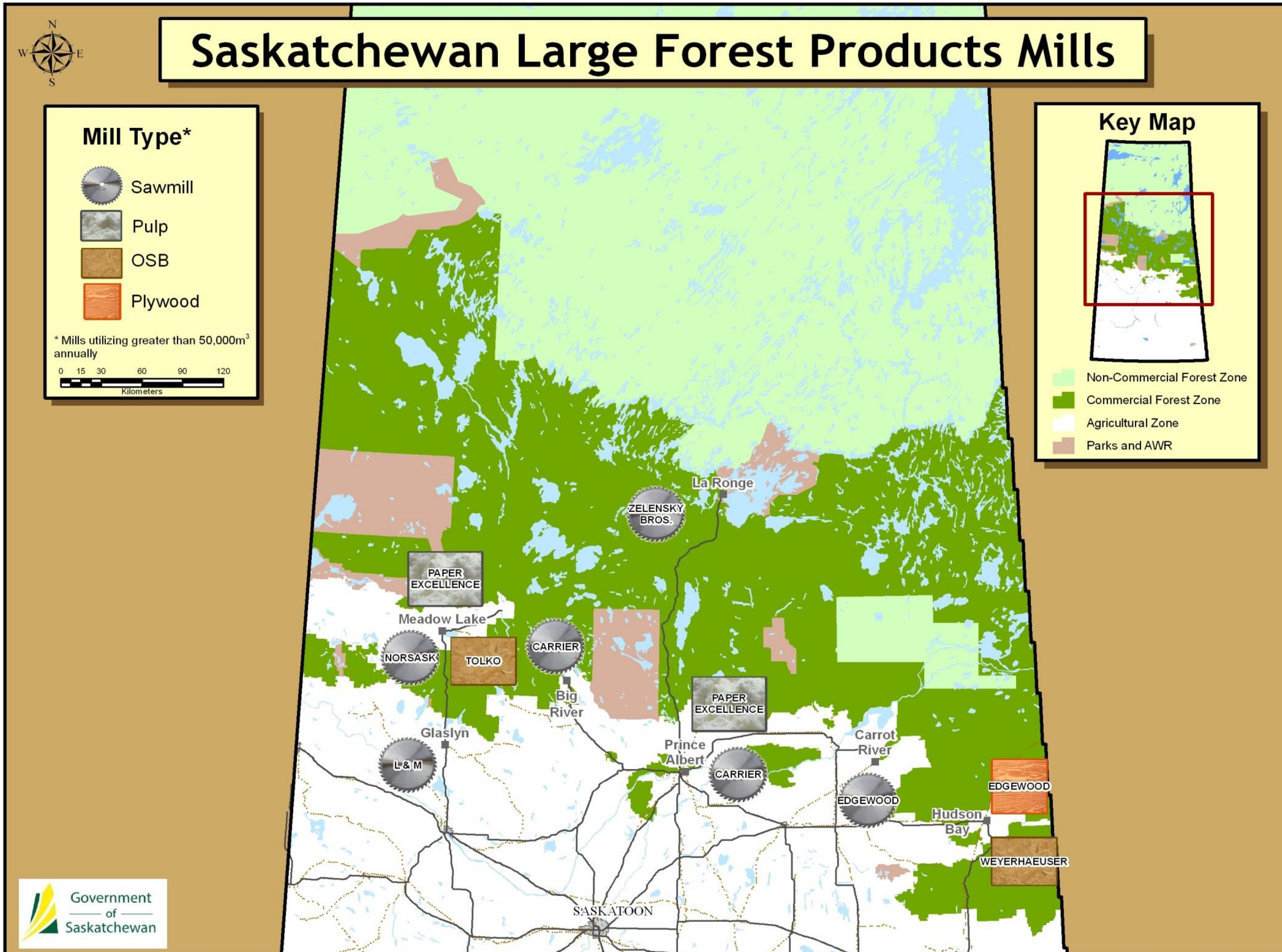
(59% Coniferous, 41% Deciduous)



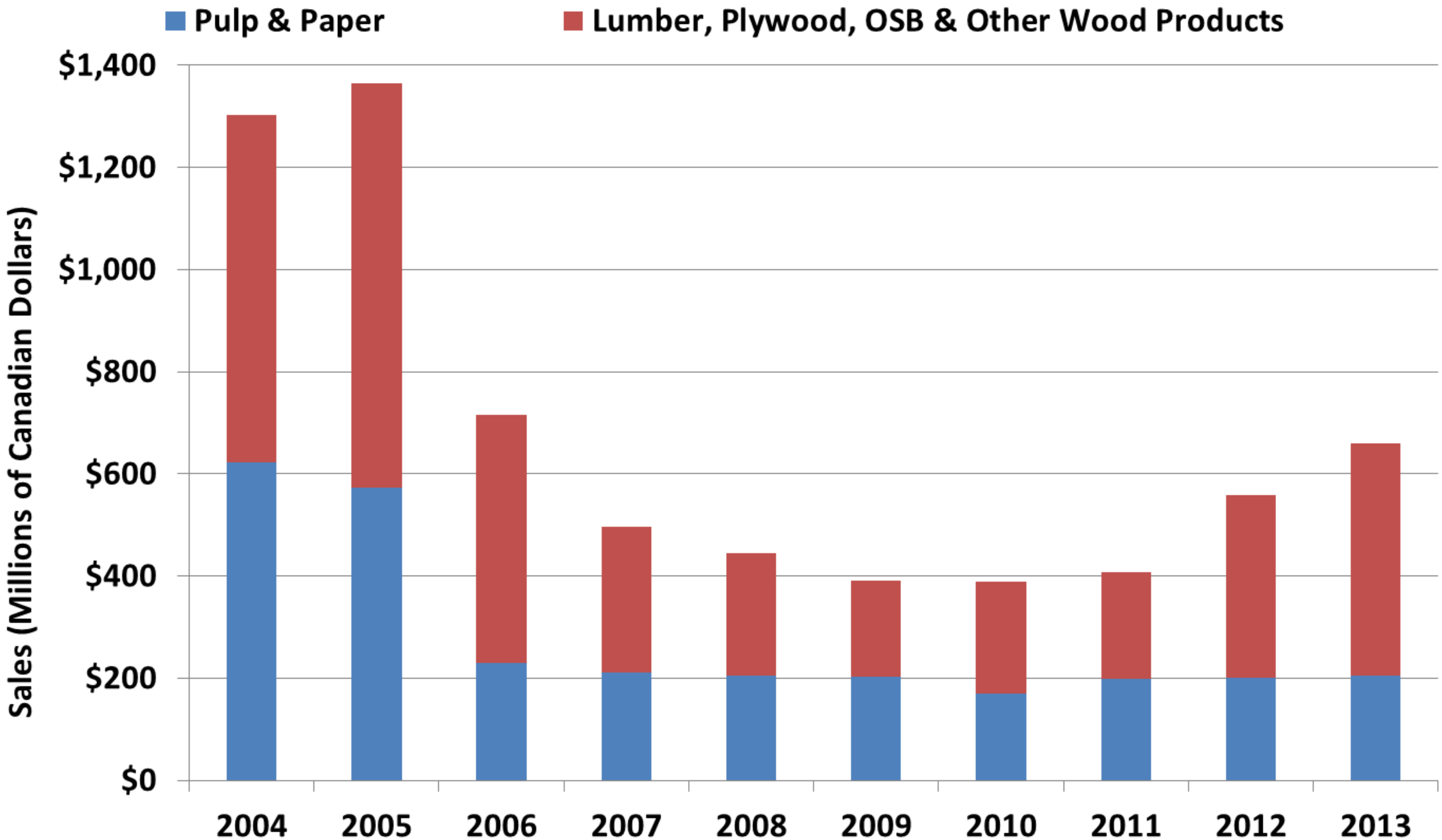
* Based on Percent of Annual Allowable Cut

Forest Industry Overview

- Northern Saskatchewan's second largest industry (after mining)
- Normally over $1 billion in forest products sales and directly employs over 4000 people
- 80% of forest products are exported to other countries, primarily United States (lumber and panels), China and Indonesia (pulp)
- Well established and competitive with leading-edge technology
- 11 large forest products manufacturing facilities:
  - 2 pulp mills (total capacity: 750,000 tonnes)
  - 2 OSB mills (total capacity: 1.4 billion sq. ft. = 1.2 million m^3)
  - 1 plywood mill (capacity: 135 million sq. ft. = 120,000 m^3)
  - 6 saw mills (total capacity: 605 million bd. ft. = 950,000 m^3)
- Over 100 smaller businesses producing a variety of forest products

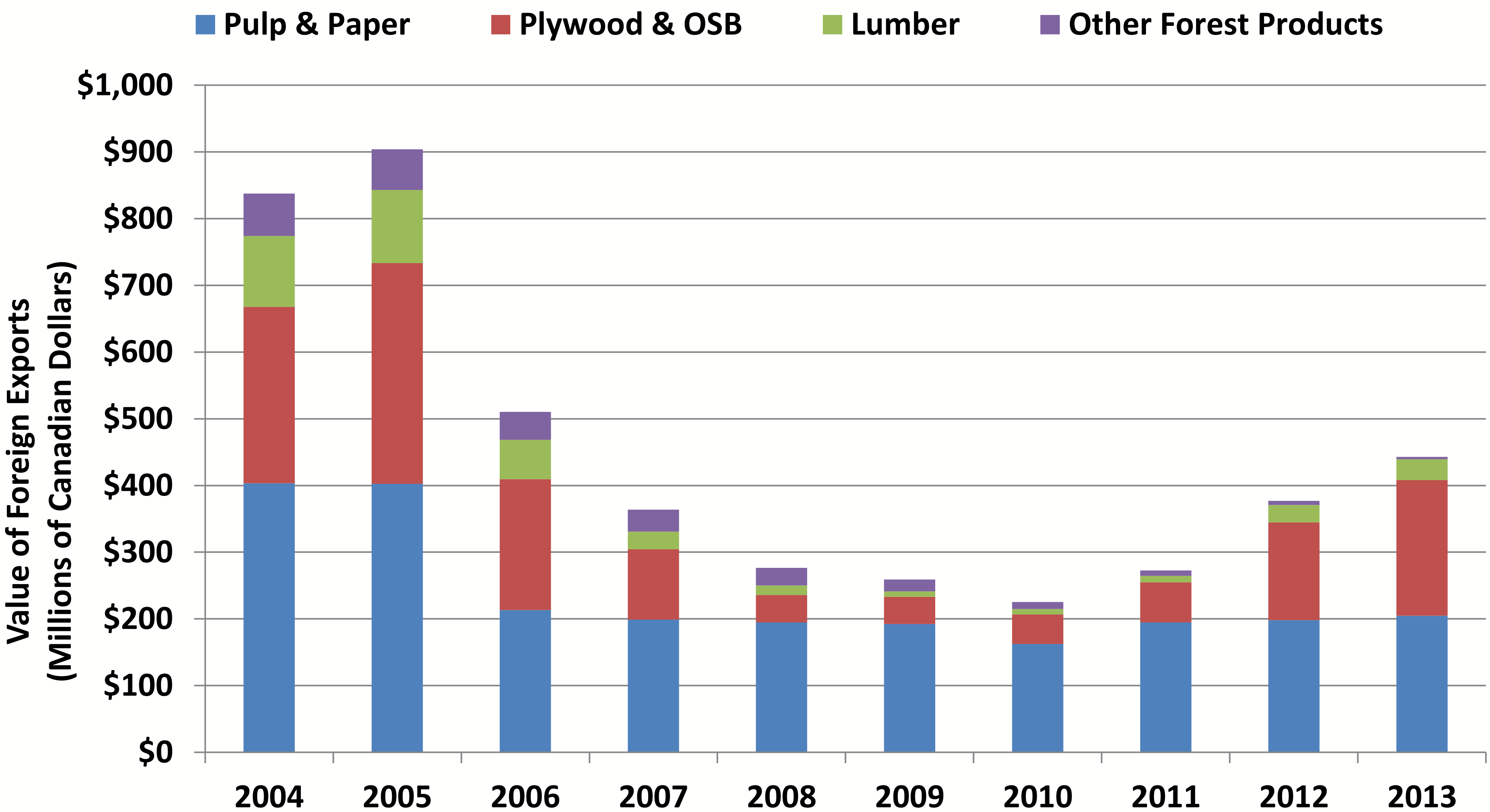

Saskatchewan Large Forest Products Mills
N
S
E
W
Mill Type*
Sawmill
Pulp
OSB
Plywood
* Mills utilizing greater than 50,000m3 annually
0 15 30 60 90 120
Kilometers
Key Map
Non-Commercial Forest Zone
Commercial Forest Zone
Agricultural Zone
Parks and AWR
La Ronge
ZELENSKY BROS.
PAPER EXCELLENCE
Meadow Lake
NORSASK
TOLKO
CARRIER
Big River
PAPER EXCELLENCE
Glaslyn
L & M
Prince Albert
CARRIER
Carrot River
EDGEWOOD
EDGEWOOD
Hudson Bay
WEYERHAEUSER
SASKATOON
Government of Saskatchewan

Saskatchewan Forest Products Sales (Source: Stats Canada)



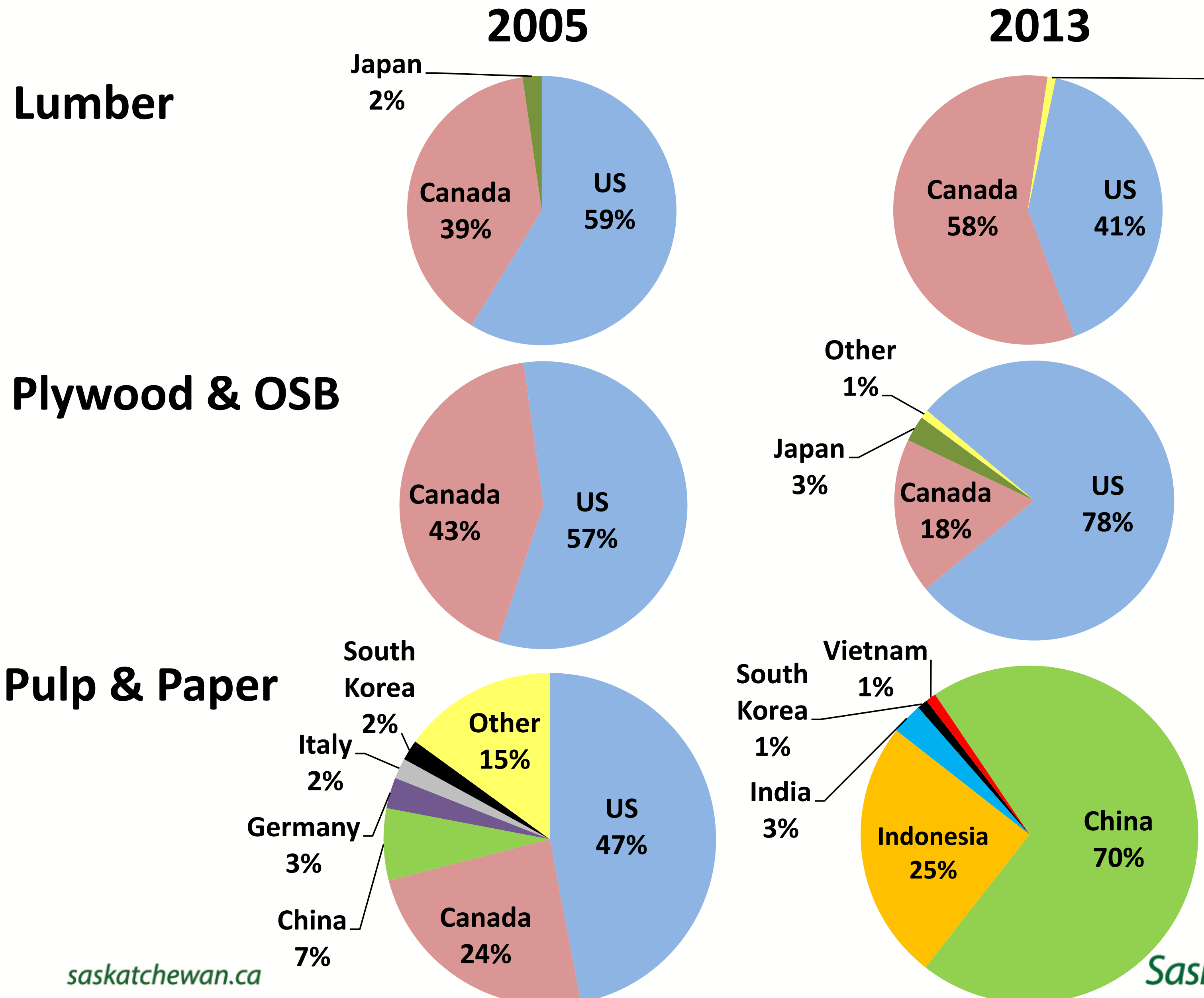
Saskatchewan Ministry of the Economy

Forest Products Exports

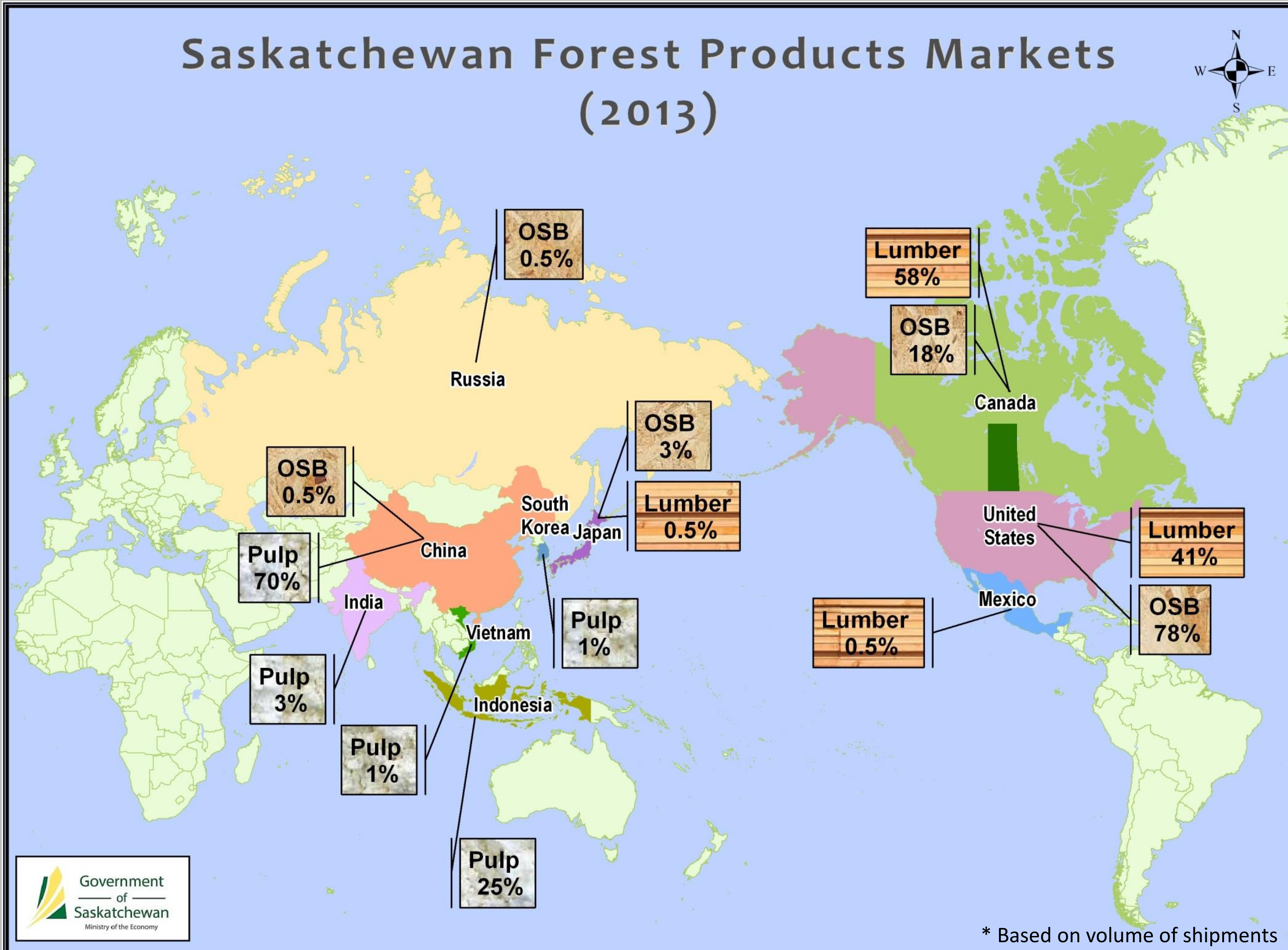


Saskatchewan

Change In Forest Products Markets



Saskatchewan Forest Products Markets (2013)



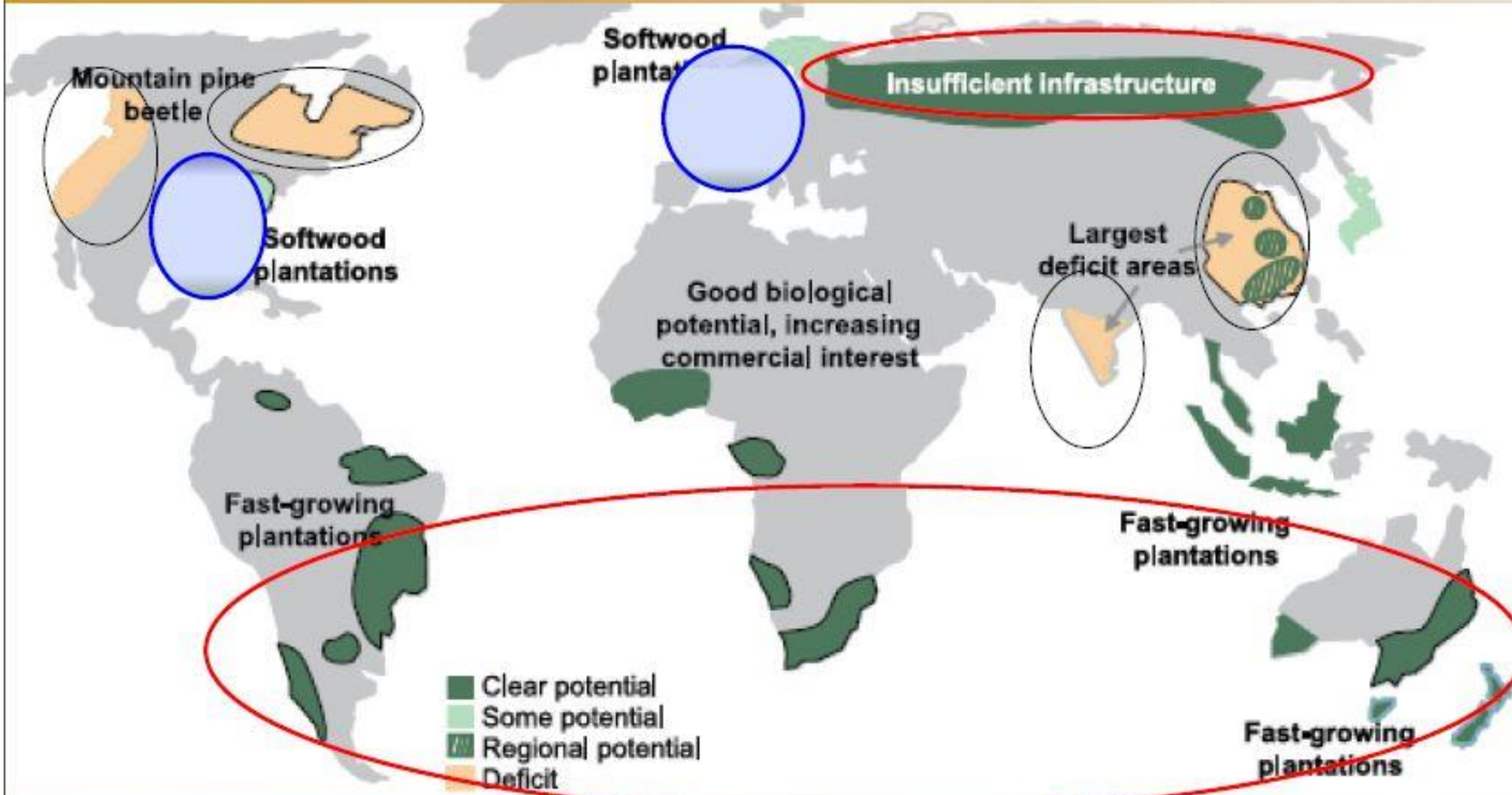
* Based on volume of shipments

Investment Climate & Export Potential

- Saskatchewan's forests are sustainably managed and our forest industry is globally competitive
- Strong government support for forestry sector growth and development
- Significantly underutilized timber resource presents substantial new business investment opportunities and increased forest products export potential
  - Existing forest industry configuration only requires 80% of AAC:
    - Over 1.5 million m^3 of timber available for new forest products mills
    - today, harvesting only 45.7% because some mills still closed

Example of Saskatchewan's Forest Industry Global Market Potential

2. Global Timber Supply Dynamics



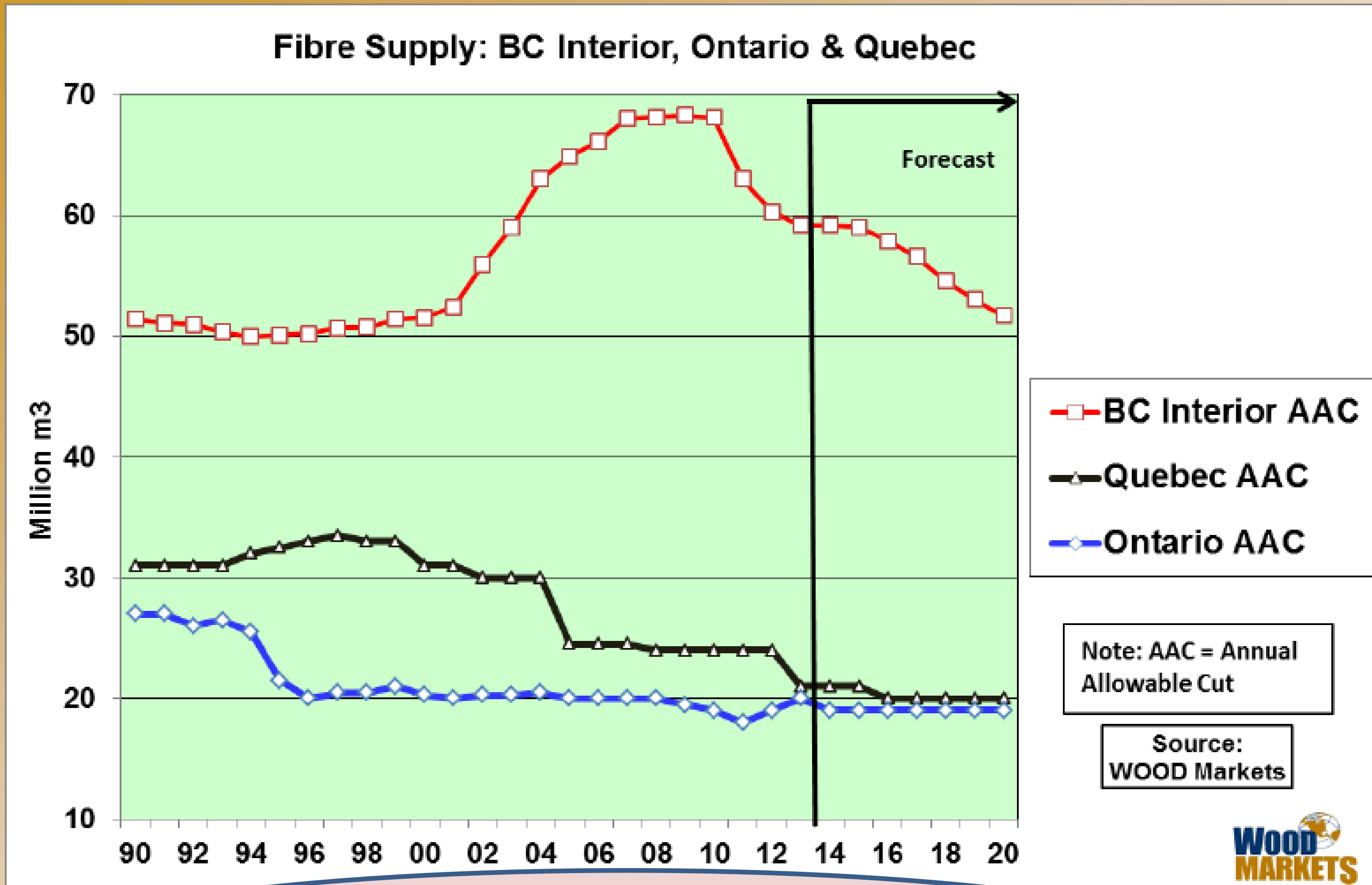
Temperate softwoods = getting more scarce;
Softwood plantations = room for growth;
Tropical timber and hardwood plantations: room for growth

3B. China Wood Products: Demand View

- Major global player: #1 or #2 producer, consumer, importer in the world of logs & most wood products!
- Huge & growing fibre deficit to 2020+ – China must import massive volumes of logs, lumber, pulp, chips etc. & will continue to need increasing imports.
- Will need to pay global market prices for imported logs, lumber and other raw materials – is already paying the highest prices in the world for logs.
- China has, and will continue to, change global log & lumber markets as well as global trade!
- The question is: where will China get its wood (mainly logs and sawnwood) as its log supply tightens, and at what price…

Wood Markets

3C. BC/Quebec/Ontario: Lower AACs



AACs from 2004 to 2014: Quebec = -35%; Ontario = -15%; from 2010 to 2020: BC Interior = -25%

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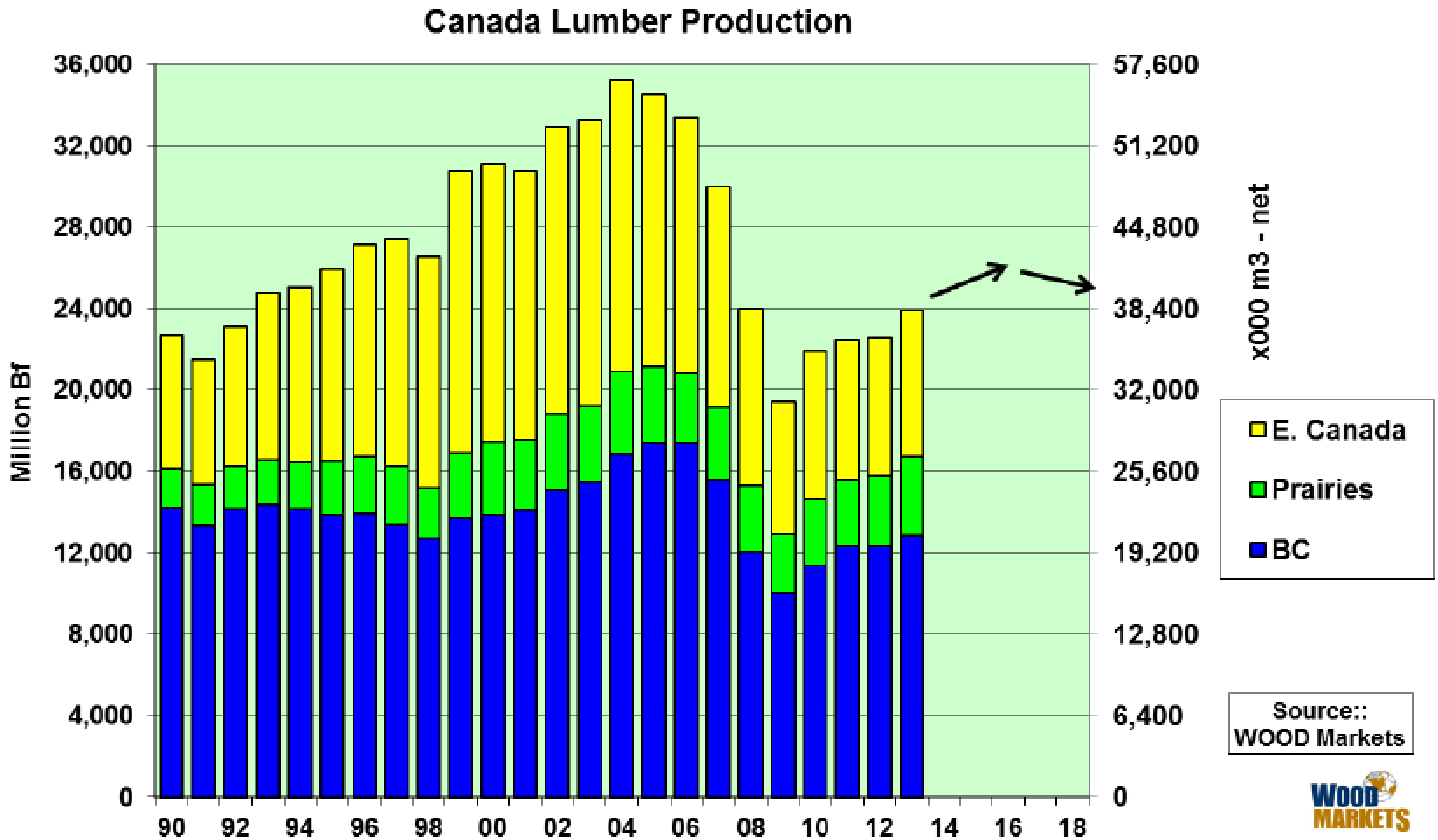
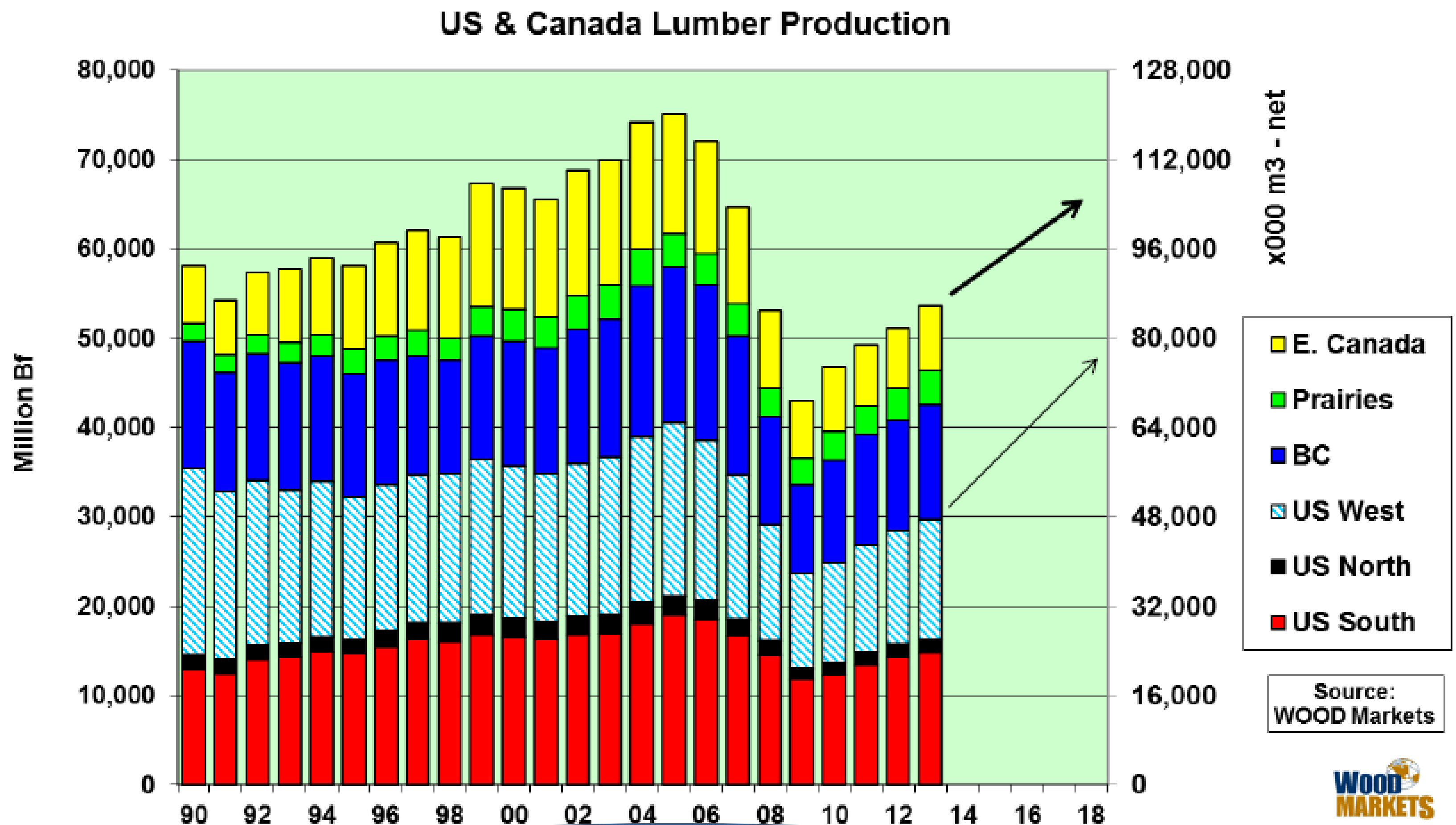
BC/Quebec/Ontario: Lower Lumber Prod'n



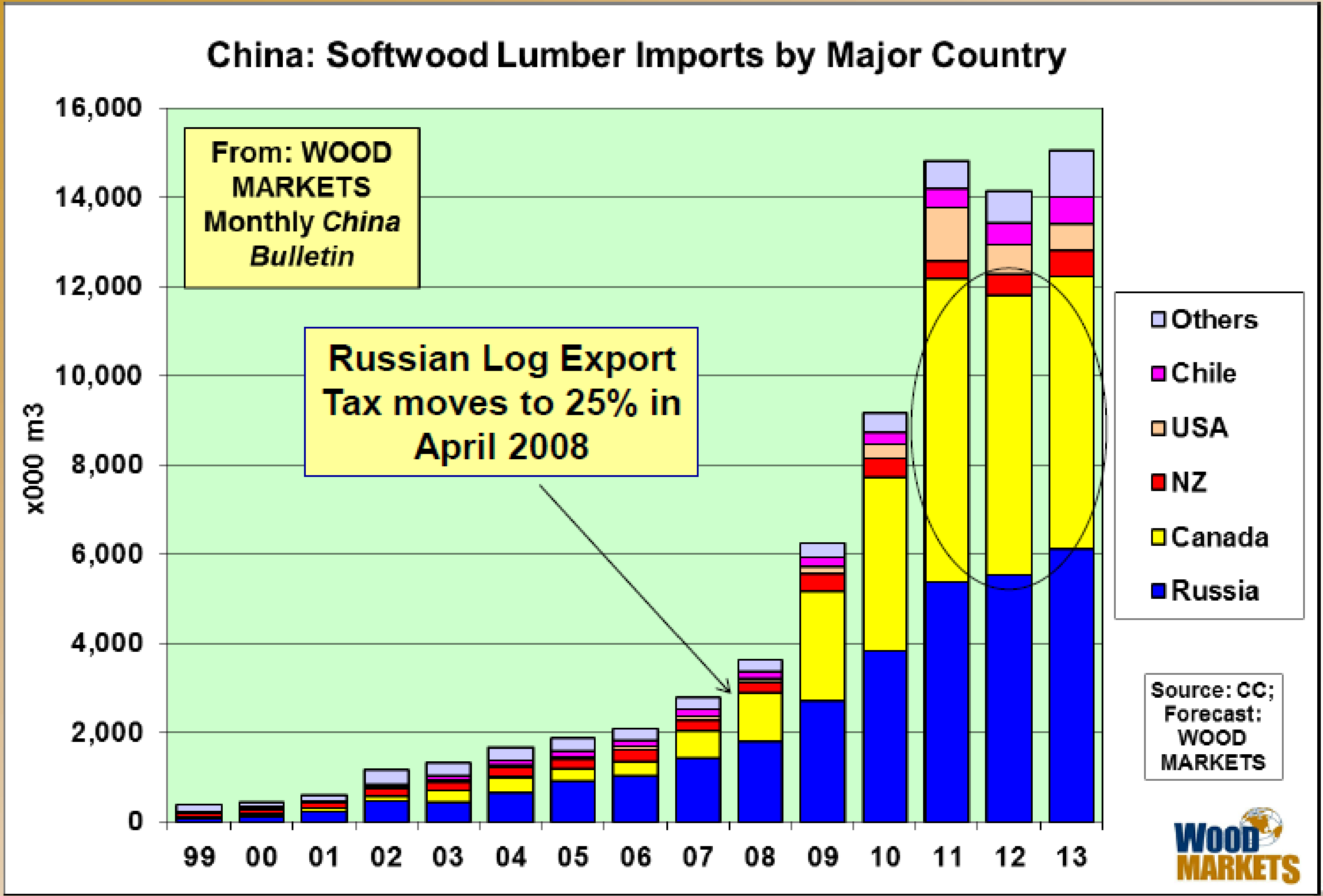
3 Canadian Provinces' Lumber Output: 2006-2020 = -33% (9 Bill Bf)

Canada Lumber Output: Sags by 2017-18



BC lumber output slows by 2015 & not offset by other Canadian regions; US output accounts for all of the increase

China's Softwood Lumber Imports



Canadian largest supplier in 2012, but Russia #1 in 2013

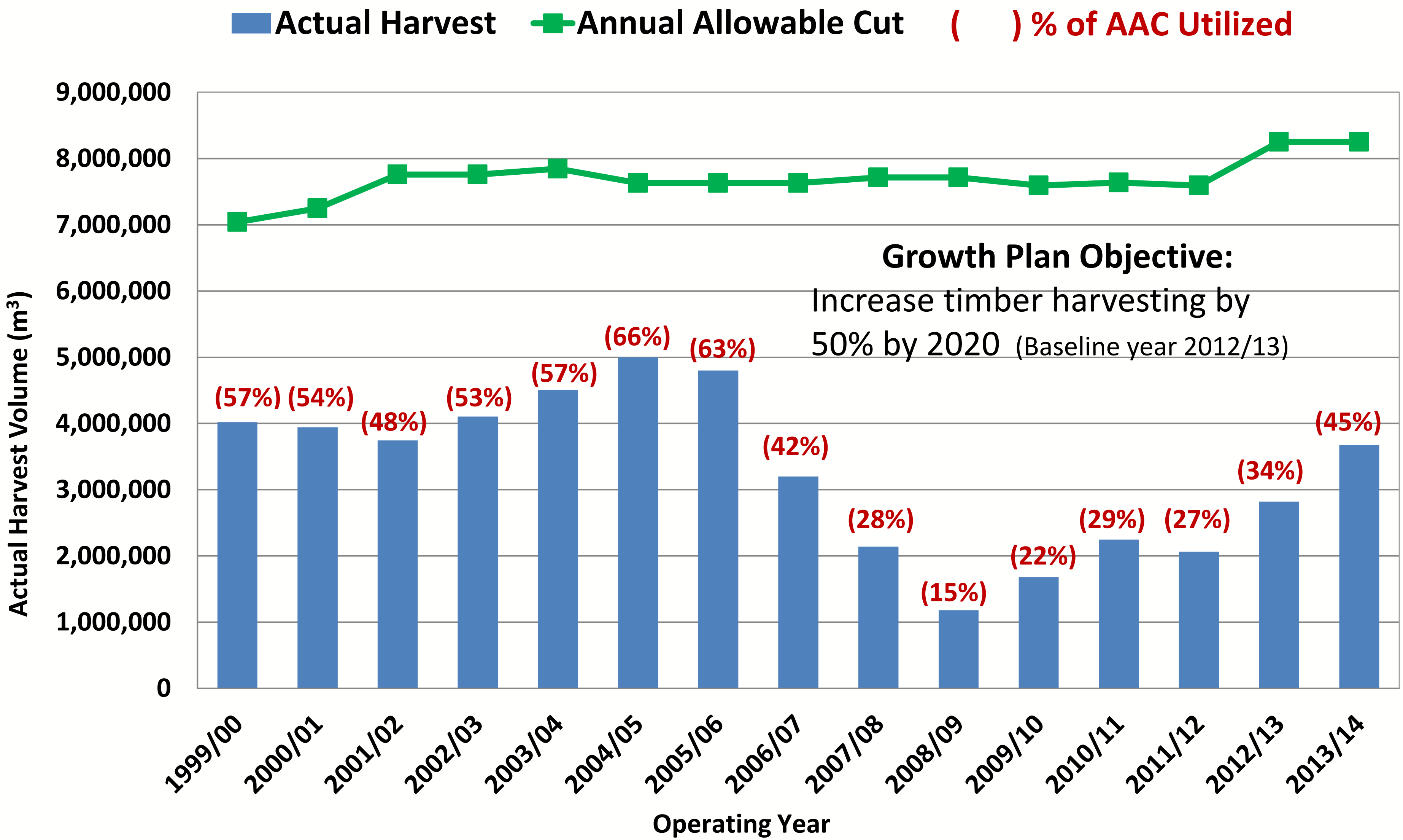
Saskatchewan Wood Export Potential Related To Global Wood Flows

- The Russian logging industry will face a lack of harvestable timber in 10 to 20 years (The Moscow Times, 30.09.2014)
- BC lumber output is slowing (2015+) and is “not offset by other Canadian regions” (Wood Markets International, 2014)
- United States new housing starts improving in 2015. US and Asian/China demand for Canadian SPF remains strong to increasing (RISI)

Key Aspects of Global Wood Supply

- Regions with tightening softwood timber resources or increasing access constraints: China, India, BC, Quebec, Western United States, Russia, Northern Europe
- Saskatchewan, although small in global contribution potential relative to other Canadian provinces, is the only province with AAC surplus available
- Quality of our softwood is equivalent to that in other boreal forests globally
- Future potential to compete successfully for the highest price bidder globally

Timber Harvest History



*Does not include timber harvest from other Crown lands or private lands.

Investment Climate & Export Potential

- Competitive forest products manufacturing costs and taxes
- Competitive and market based timber royalty system
- Results-based regulatory framework
- Well-established transportation network providing access to North American and offshore markets
- Well-trained, reliable and productive workforce, and…

Investment Climate & Export Potential

- We have a potential for growth, not only in the commodity forest products of lumber, panels and pulp, but…
- We have growth potential through increased value-added production by using both:
  - commodity forest products, **and**;
  - residuals from those manufacturing processes.
- Growth in our forestry sector also promotes growth in the associated supply industries.

For more information contact:

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http://economy.gov.sk.ca/Forestry