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The formula for survival – expand in tough times

Apollo Forest Products upgrades one of its premier sawmills

An innovative Scotiabank sale and lease-back package helped British Columbia's Apollo Forest Products Ltd. reduce costs, increase production and become more efficient in a competitive, commodity-based industry.

As a result of the Canada-U.S. softwood lumber dispute, Apollo Forest Products - like other B.C. lumber mills - has had to deal with American counter-vale and anti-dumping duties on lumber, and responded by becoming even more efficient.

Scotiabank became part of the solution last spring when the bank put together an innovative \$11.5 million sale and lease-back package to expand and upgrade Apollo's sawmill and planer mill complex in Fort St. James. With the tax advantages factored in, the approach proposed by Scotiabank was significantly less expensive than either self-financing or traditional bank debt, according to Gloria Goodwin, CGA and Apollo Forest Products Controller.

A unique solution

"We had always thought of sale and lease backs for assets such as aircraft or cars, not for large, fixed-asset expansions," says Goodwin. "What surprised me was the fact that the bank came up with a solution for sawmill production assets that we really didn't know about."

In addition to a less expensive financing solution, Apollo also gained favourable tax treatment through the sale and lease-back approach. The company was able to file a "joint election" on the assets leased, which allowed Apollo to claim regular Capital Cost Allowance and also claim the interest portion of the lease payment at the prescribed rate from Canada Customs and Revenue Agency.

Apollo is a member of the family-owned Sinclair Group of Companies, founded 30 years ago and based in Prince George. The company, which owns four mills in Prince George, Vanderhoof and Fort St. James, has traditionally financed acquisitions and expansions internally.

Because of the uncertainty created by American duties on lumber, the company decided to put out a Request for Proposal for the Fort St. James' mill expansion.

"We were going ahead with the project, but we wanted to see what other options were available," says Goodwin.



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More lumber, less waste

Using a team approach, Scotiabank's Prince George Banking Centre worked with the Bank's Forestry and Leasing specialists in Vancouver to put together a sale and lease-back financing option that won the day.

Under the sale and lease-back approach, Apollo expanded the Fort St. James mill, increasing production from 110 million to 135 million board feet, enough new lumber to build 11,000 homes. An advanced scanner was purchased to grade and sort lumber more efficiently, reducing waste and increasing value by adding more products and grading more accurately.

Apollo completed the construction, installed the new equipment, sold the expansion to Scotiabank and then leased it back for five years. A buyout provision was included at the end of the lease using a Scotiabank addendum which allows the lease to be treated as off-balance sheet.

An ideal solution

The sale and lease-back solution proposed by Scotiabank is not only cost-effective but allows Apollo to conserve cash in these highly uncertain times in the forest industry.

"It was an ideal solution for us," concludes Goodwin. "This is a time when cash is king for companies in the forest industry. This approach certainly met our needs."



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