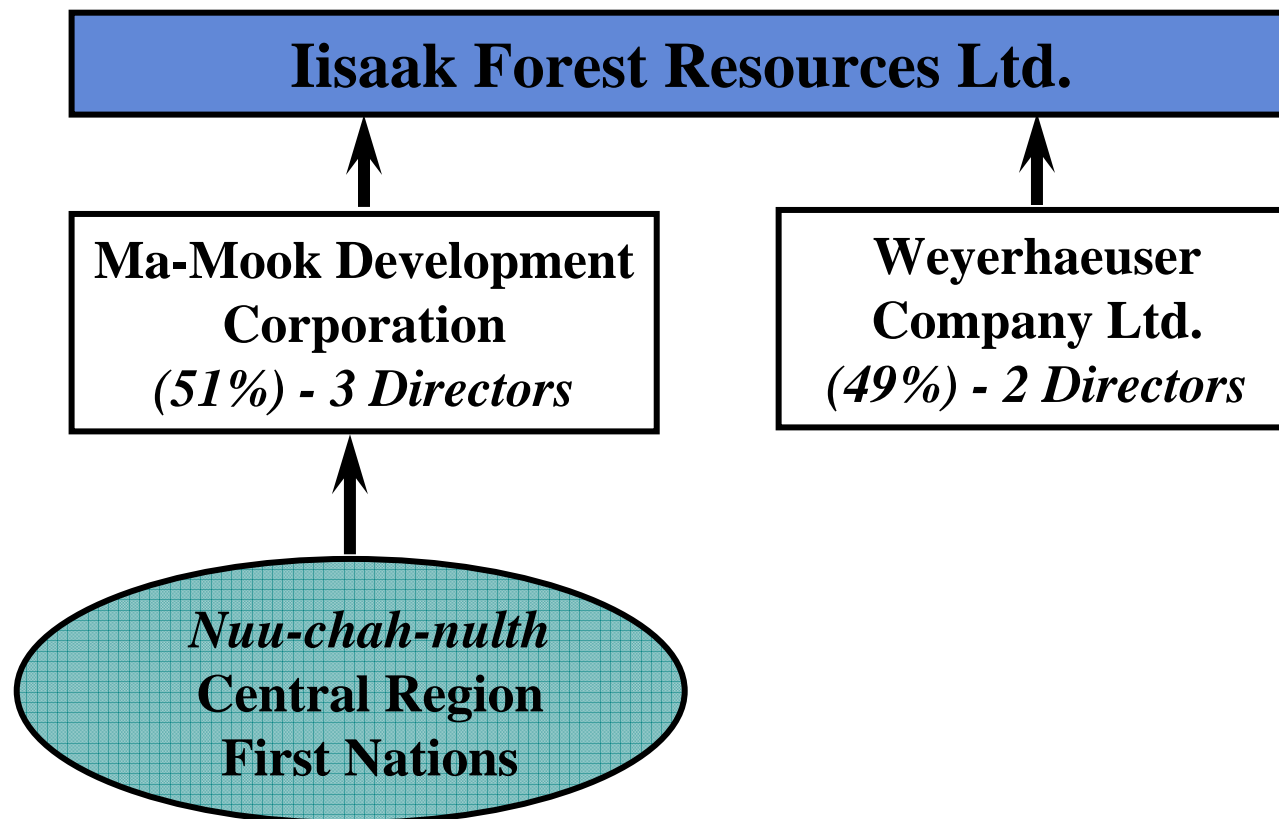


Isaak Forest Resources - Katoomba Group, 2002

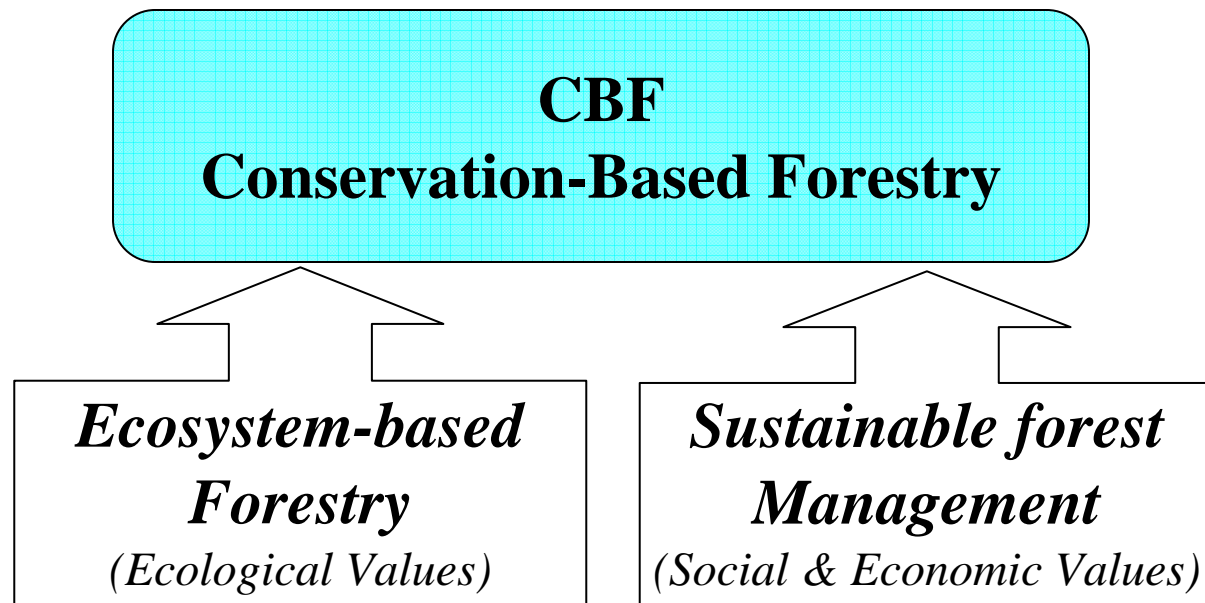
Joint Venture Company
First Nations and Forest Industry



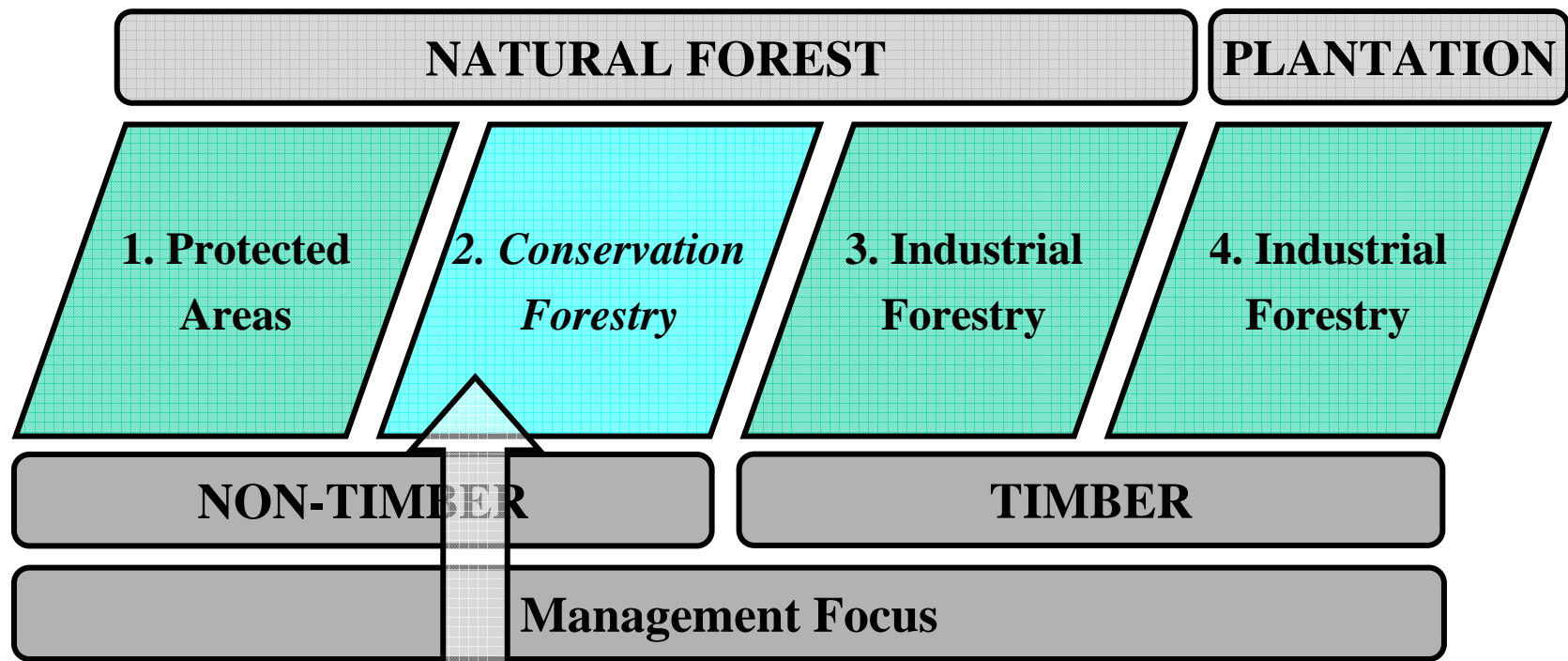
Ahousaht, Hesquiaht, Tla-o-qui-aht, Toquaht, Ucluelet

Conservation-Based Forestry (CBF)

Conservation-based forestry – practices and operations designed to achieve conservation as a primary management objective



Forest Management Models *The Complete Set*



**Proving viability of this option enhances
choice and viability of others . . .**

B.C. Coastal Forest Industry *Current Crisis and Challenges* ⁽¹⁾

- **Conditions**
 - Diminishing Timber Supply
 - Global Competition and Shifting Markets
 - High costs
 - Plant operation – 75% capacity
 - U.S. Trade Action
 - Forest Policy – Impediments and Uncertainty
- **Financial Results**
 - Declining earnings and P/E multiples
 - Return on invested capital below cost
- **Social and Economic Consequences**
 - Woodlands and plant closures
 - Rural communities threatened

(1) P.H. Pearse, 2001. *Ready for Change – Crisis and Opportunity in the Coast Forest Industry.*

Elements of Business Strategy

Forest Management

Conservation-based forest management

- Sci-Panel recommendations
- Landscape level planning
- First Nation cultural values & traditional knowledge

Business Segments

Timber- Commercial

- Timber
- *CS brand* products - value-added/specialty

Non-timber - Commercial

- Secondary forest products
ie. *botanicals*
- Recreation, eco-tourism

Non-timber - Conservation Value

- Carbon
- Biodiversity

Stakeholder Relationships

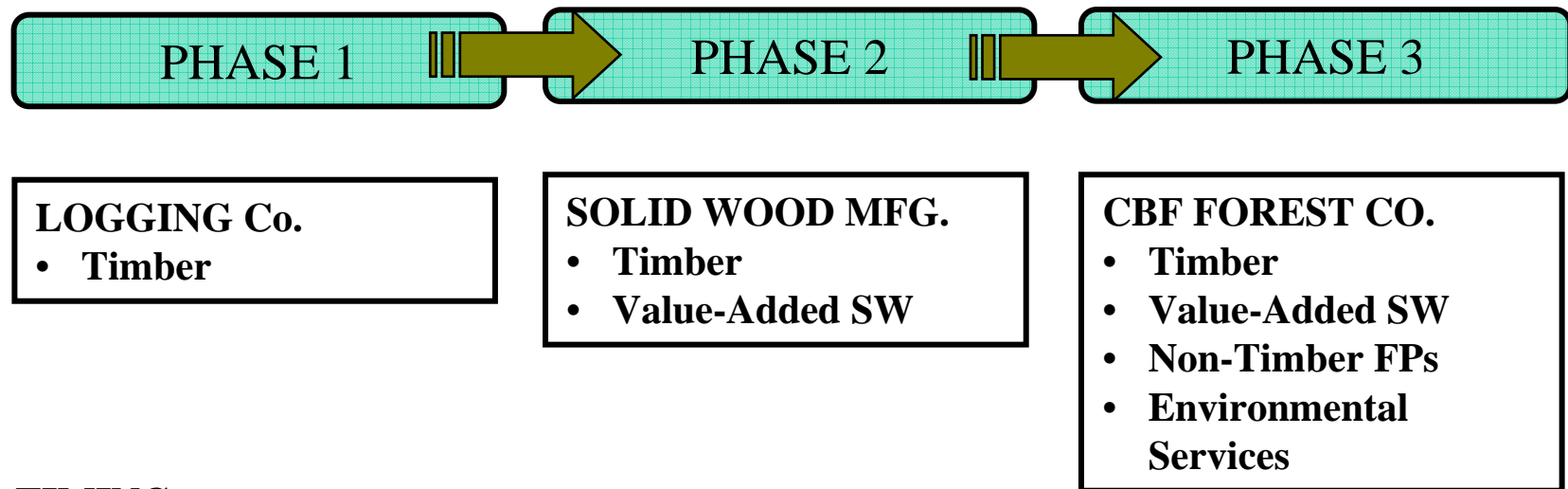
- First Nations
- ENGO's
- Local non-aboriginal communities

- Provincial Gov.
- Federal Gov.
- First Nations Gov.

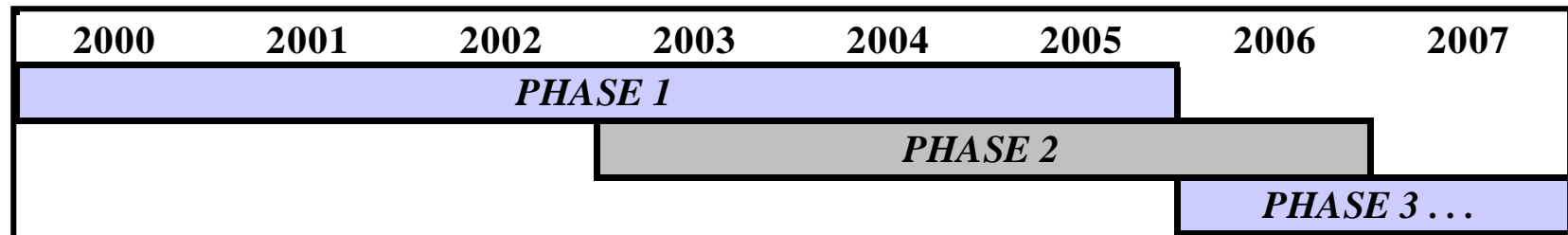
Elements of Business Strategy – *Phase 1*

<p><u>Forest Management</u></p> <p>Conservation-based forest management</p> <ul style="list-style-type: none"> • Sci-Panel recommendations • Landscape level planning • First Nation cultural values & traditional knowledge 		
<p>Timber-Commercial</p> <ul style="list-style-type: none"> • Timber • Value-added/specialty <i>CS brand</i> products - 	<p><u>Business Segments</u></p>	
	<p>Non-timber - Commercial</p> <ul style="list-style-type: none"> • Secondary forest products ie. <i>botanicals</i> • Recreation, eco-tourism 	<p>Non-timber - Conservation Value</p> <ul style="list-style-type: none"> • Carbon • Biodiversity
<p><u>Stakeholder Relationships</u></p>		
<ul style="list-style-type: none"> • First Nations • ENGO's • Local non-aboriginal communities 	<ul style="list-style-type: none"> • Provincial Gov. • Federal Gov. • First Nations Gov. 	

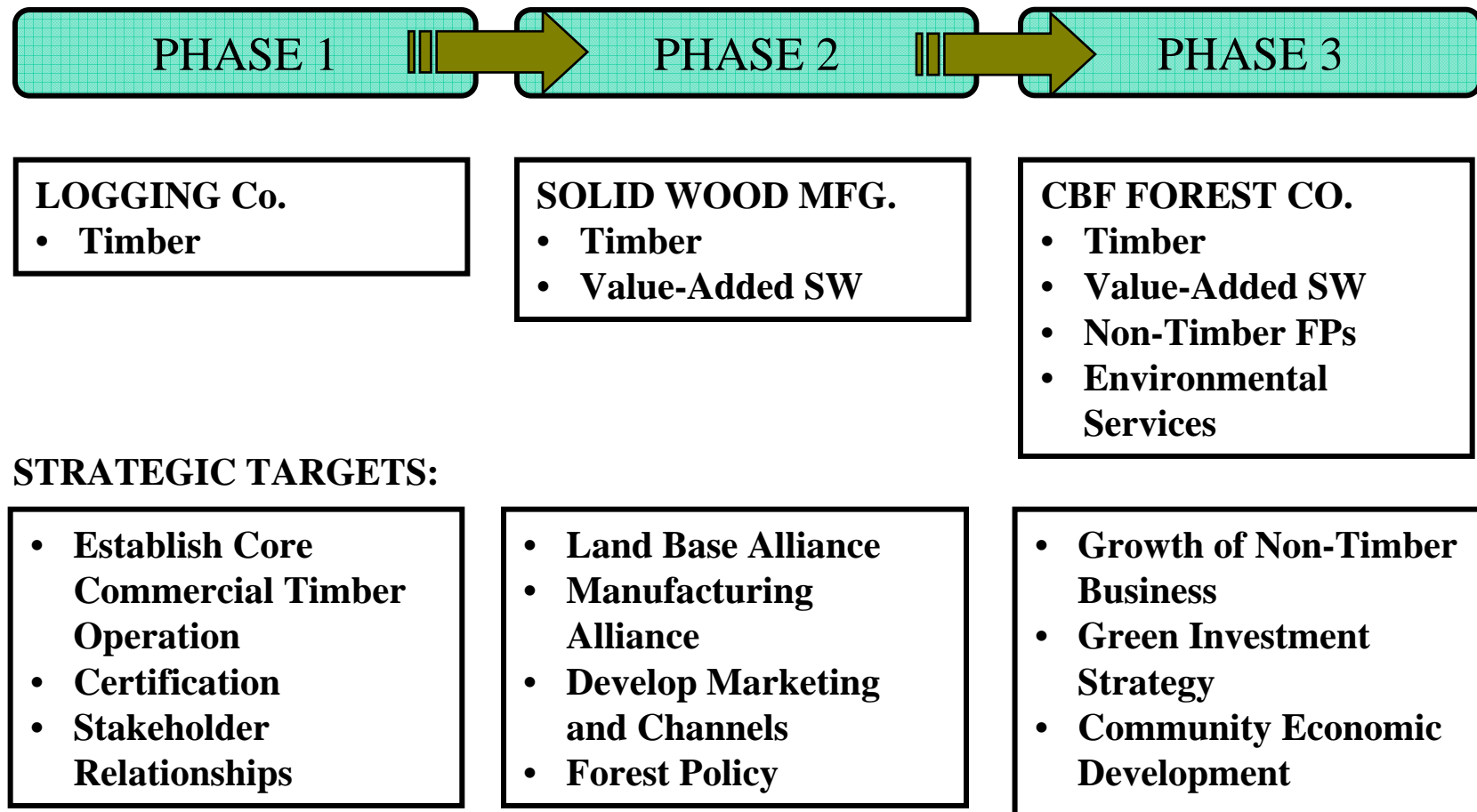
Business Strategy Development Pathway



TIMING:



Business Strategy Development Pathway



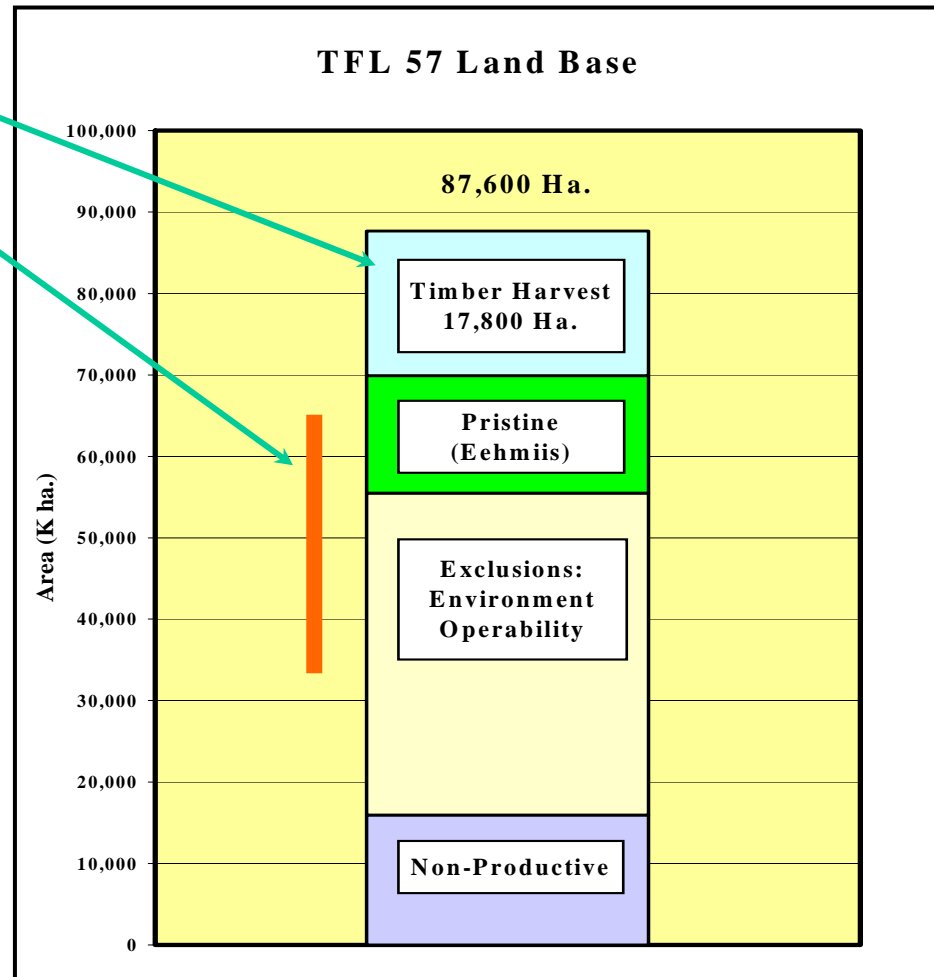
Our Current Business

Forest Management and Timber Harvesting

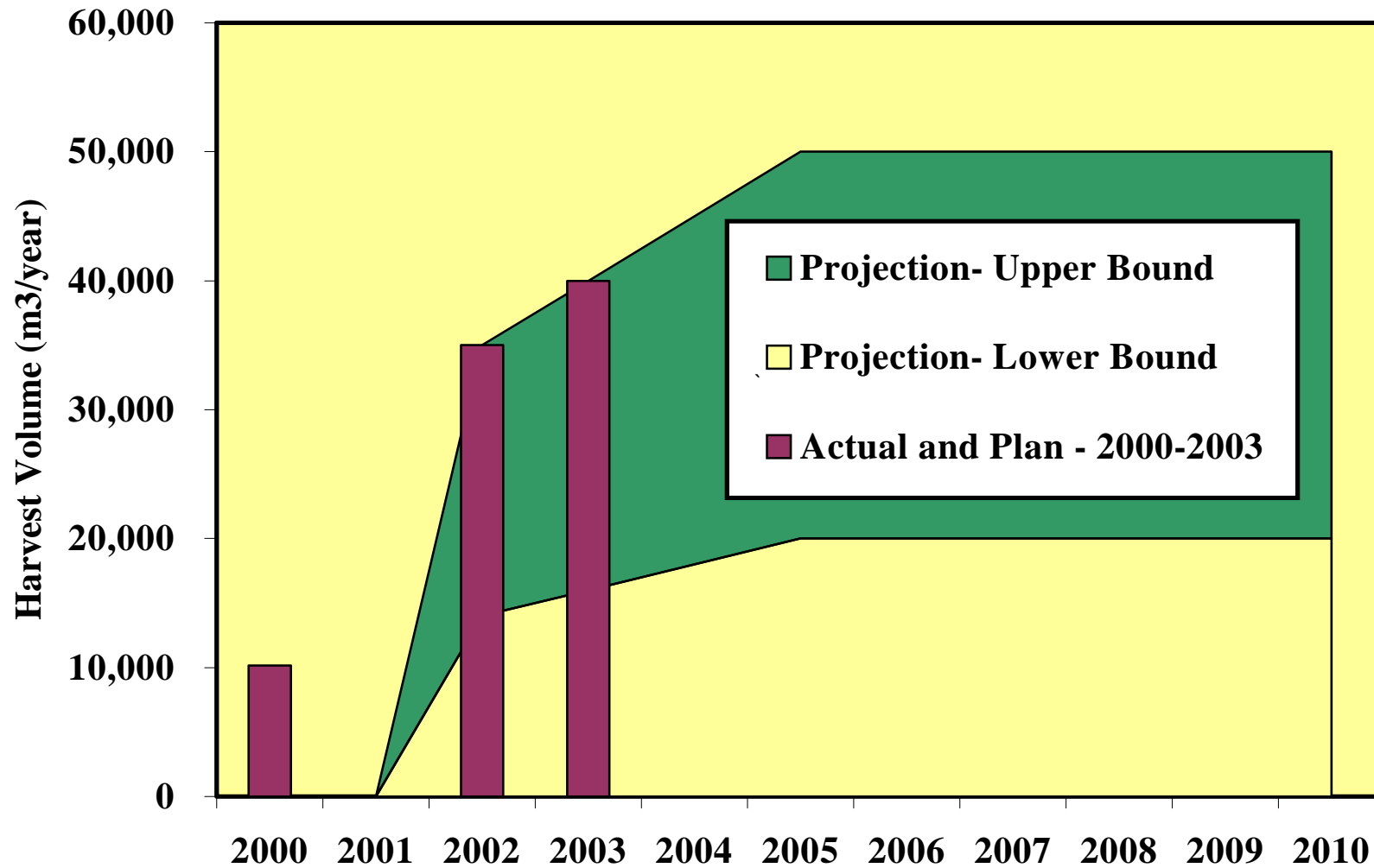
- ❑ **Timberland Asset: TFL 57**
 - **Harvest Land Base – 20%**
 - **Substantial incremental net-downs (Clayoquot)**

- ❑ **Forest Management Activities**
 - **Planning**
 - **Engineering**
 - **Silviculture**
 - **Community Involvement**
(significant incremental approval process)

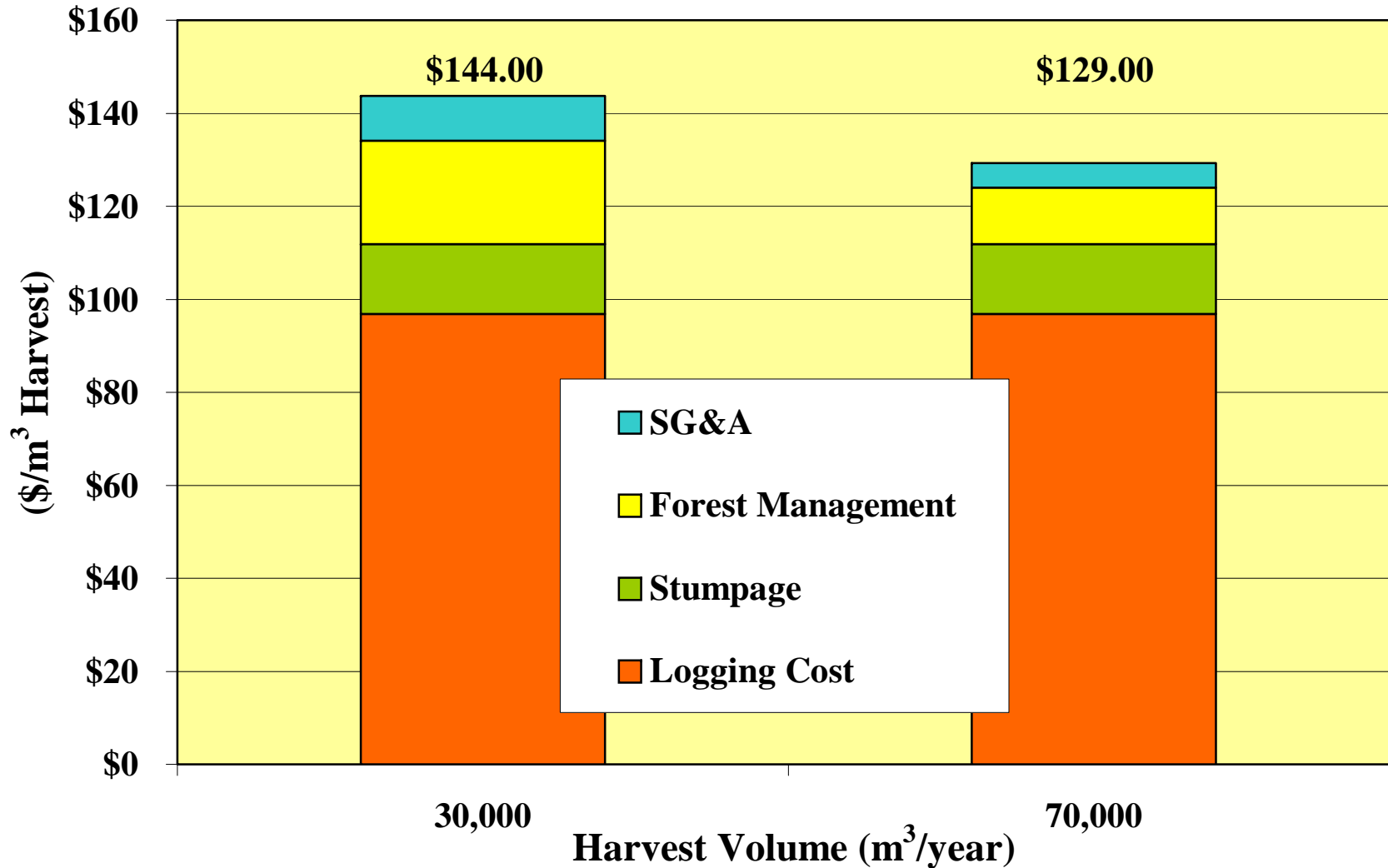
- ❑ **Forest Management Context**
 - **Scientific Panel**
 - **Forest Stewardship Council Certification**



Our Current Business *Timber Harvest Projections*



Operating Cost Structure *Total Delivered Wood Cost*



Isaak Forest Resources - Katoomba Group, 2002

Isaak and Global Forest Products

	Isaak – B.C.	GFP-South Africa
Total Area	87,000 ha.	67,000 ha.
Reserves/Net-Downs	85%	45%
Rate of Harvest	50,000 m ³ /year	330,000 m ³ /year
Transport Cost N.A. Market	\$5/Mbf	\$60 MBF
Milling Capacity	0%	100%

Phase 1 Highlights

2000 - 2005

1. Shareholders expectations - Phase 1:

- Break-even (cash positive) as timber producer
- No cash distribution to shareholders

2. Business results to date reflect this expectation:

- Invested in start-up operations, development \$2.3 MM
- Total sales – timber and forest products \$3.5 MM
- Business valuation – Phase 1 assumptions \$3.0 MM

3. Isaak is nonetheless a local economic force

- Start-Up: 2-22 annual jobs
- By 2005: 30 annual jobs

3. Isaak is undercapitalized and seeking financing

- Initial equity from transferred assets
- Preferred equity / shareholder loans for start-up insufficient

Finance Plan

Requirements – Phase 1

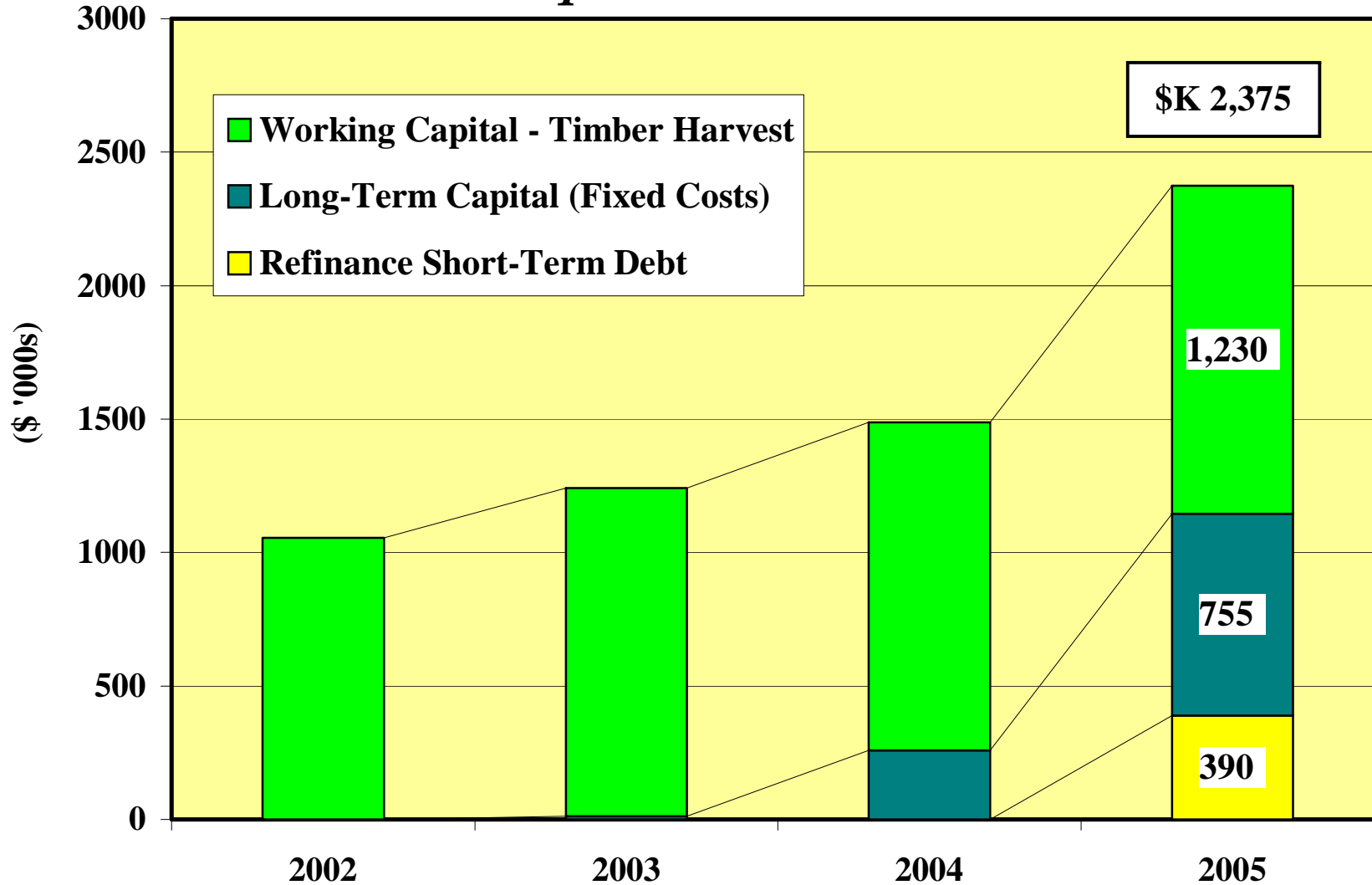
- ***Working Capital – Annual cash reserve or op. line equivalent to finance timber harvesting*** ***\$1,230,000***
At 35,000 m³
 - Variable logging costs plus stumpage
 - Build and manage timber inventories prior to delivery and receipt of sale revenues
 - Base level required for the 2002 harvest; replaced during annual financial cycle.

 - ***Long-term Capital – Potential cash deficits on fixed costs (Lower prices, higher costs from business plan assumptions)*** ***\$1,145,000***
Period 2002-05
 - Forest management, and general administration during the period 2002-2005
 - Refinance existing short-term debt (\$390)
 - *Longer-term debt or equity is required to finance these deficits*
- Total \$2,375,000***

Isaak Forest Resources - Katoomba Group, 2002

Finance Plan

Requirements – Phase 1



Finance Plan

Sources – Phase 1

The Board of Directors proposes financing from . . .

1. Central Region First Nations

Total **\$1,500,000**

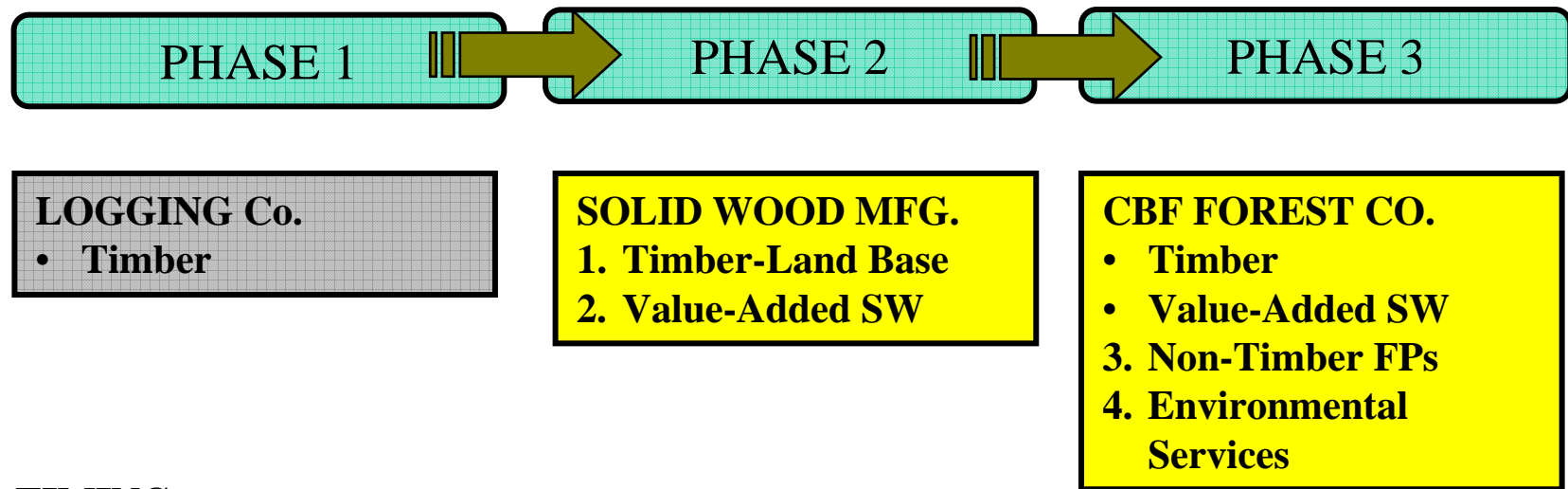
2. Other Sources **\$Up to \$875,000**

Total **\$2,375,000**

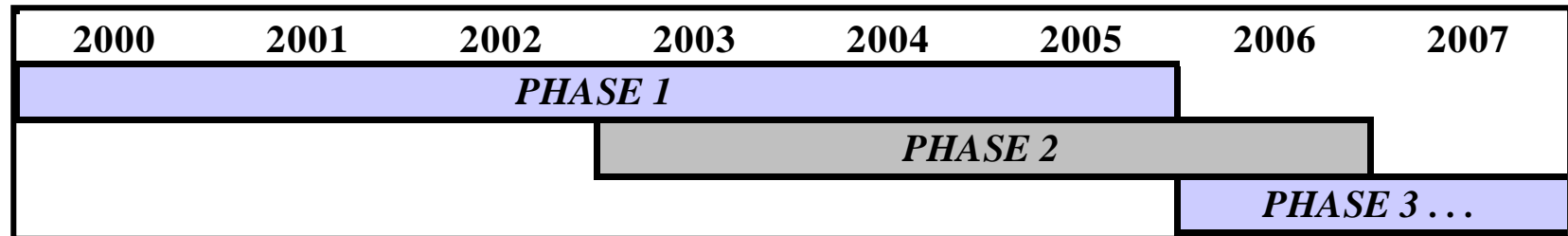
Conservation sector lenders and donors, federal government, private investor in sustainable forest management projects, other.

Business Strategy

Key Bets for Phases 2 and 3



TIMING:



Business Strategy

Key Bets for Phase 2

1. Timber Harvesting – Land Base Alliance

DESCRIPTION

ACTION

- Investigate options to consolidate/combine timber harvesting operations under conservation-based forestry practices in Clayoquot Sound
- Optimize operations
- Uniform certification (FSC)
- Pursue joint branding and marketing strategy

RESULTS

- Achieve reliable, sustainable economies of scale at volume threshold (70,000 m³ +)
- Reduce unit fixed costs
- Single brand development and marketing

Business Strategy

Key Bets for Phase 2

2. Value-Added Solid Wood Manufacturing

- **Manufacturing**
- **Marketing**

DESCRIPTION

ACTION

- Develop strategic alliance for processing Isaak timber into specialty, FSC certified wood products
- Develop complementary strategic alliance(s) to branding, access to specialized markets (green building materials).

RESULTS

- Access to North American markets for conservation-based wood products
- Target premium - 20-50%

Business Strategy

Key Bets for Phase 2

PHASE 2

DESCRIPTION

PROBABILITY

1. Timber-Land Base

Low-Medium

- *Strong economic rationale*
- *Significant uncertainty - outcome of negotiations, political issues, length of process*

2. Value-Added SW

Medium-High

- *Except - subject to providing sufficient volumes to market*
- *General uncertainty on business conditions.*

Isaak Forest Resources - Katoomba Group, 2002

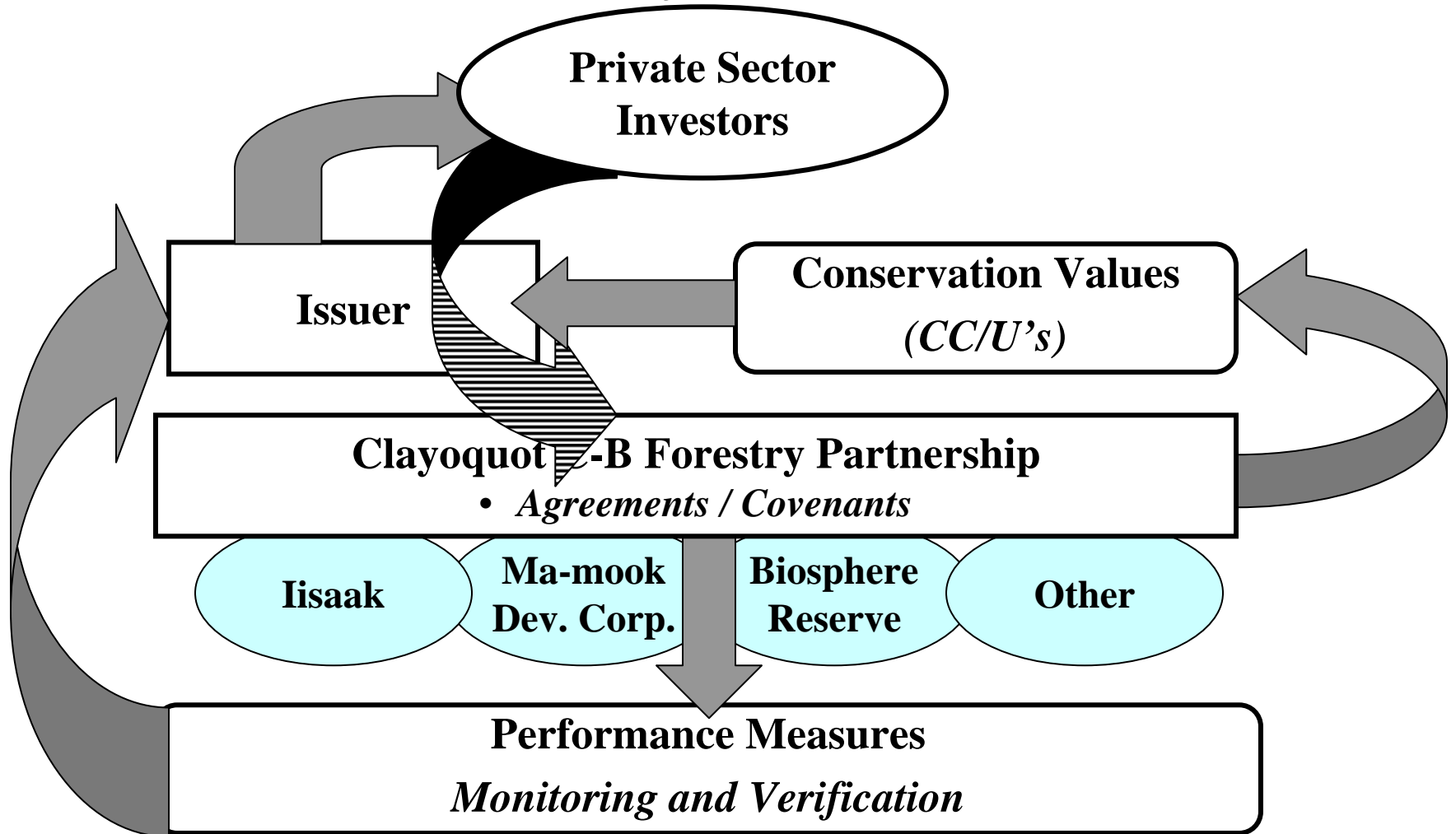
Key Bets

Potential Value related to Environmental Services . . . ?

Brand Value – Product/Place

<u>INVESTMENT</u>	<u>\$C MM</u>
Land Base	
• Avoided acquisition costs	10.0
• Alliance investment	(1.0)
Solid Wood Mfg.	
• Alliance investment	(.5)
<u>OPERATIONS</u>	
Free Cash Flow	<u>3.9</u>
NPV	12.4

Phase 3: Green Investment Strategy *Structure of Transaction*



Questions and Issues

Brainstorming

Given that:

- A. Isaak is developing in phases:
 - Business fundamentals, forestry and manufacturing, first
 - Non-timber business segments second (NTFP, Green Investment)
- B. Isaak is undercapitalized and seeking financing now:
 1. Is strategy the right approach (priorities, timing)? To what extent should Isaak pursue Green Investment Strategy, Phase 3, given complexity?
 2. What else should Isaak do now to develop finance from environmental services?
 - Technical – define and measure conservation values
 - Market and finance
 3. How should Isaak engage the green investment community in short-term?
 - Program funding – donors
 - Long-term capital