Joint Venture Company
First Nations and Forest Industry

Iisaak Forest Resources Ltd.

Ma-Mook Development Corporation
(51%) - 3 Directors

Weyerhaeuser Company Ltd.
(49%) - 2 Directors

Nuu-chah-nulth Central Region First Nations
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*

CBF
Conservation-Based Forestry

Ecosystem-based Forestry
(Ecological Values)

Sustainable forest Management
(Social & Economic Values)
Forest Management Models

The Complete Set

1. Protected Areas
2. Conservation Forestry
3. Industrial Forestry
4. Industrial Forestry

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

## Elements of Business Strategy

### Forest Management
Conservation-based forest management
- Sci-Panel recommendations
- Landscape level planning
- First Nation cultural values & traditional knowledge

### Business Segments

<table>
<thead>
<tr>
<th>Timber-Commercial</th>
<th>Non-timber - Commercial</th>
<th>Non-timber - Conservation Value</th>
</tr>
</thead>
<tbody>
<tr>
<td>• Timber</td>
<td>• Secondary forest products ie. <em>botanicals</em></td>
<td>• Carbon</td>
</tr>
<tr>
<td>• <em>CS brand</em> products - value-added/specialty</td>
<td>• Recreation, eco-tourism</td>
<td>• Biodiversity</td>
</tr>
</tbody>
</table>

### Stakeholder Relationships

- First Nations
- ENGO’s
- Local non-aboriginal communities
- Provincial Gov.
- Federal Gov.
- First Nations Gov.
Elements of Business Strategy – Phase 1

**Forest Management**
Conservation-based forest management
- Sci-Panel recommendations
- Landscape level planning
- First Nation cultural values & traditional knowledge

**Business Segments**
- **Timber-Commercial**
  - Timber
  - Value-added/specialty CS brand products - 
- **Non-timber - Commercial**
  - Secondary forest products i.e. 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.
Iissaak Forest Resources - Katoomba Group, 2002

Business Strategy
Development Pathway

LOGGING Co.
- Timber

SOLID WOOD MFG.
- Timber
- Value-Added SW

CBF FOREST CO.
- Timber
- Value-Added SW
- Non-Timber FPs
- Environmental Services

TIMING:

<table>
<thead>
<tr>
<th>Year</th>
<th>2000</th>
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<th>2002</th>
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<th>2006</th>
<th>2007</th>
</tr>
</thead>
<tbody>
<tr>
<td>Phase</td>
<td>PHASE 1</td>
<td>PHASE 2</td>
<td>PHASE 3 ...</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
</tbody>
</table>
Business Strategy
Development Pathway

PHASE 1
- Establish Core Commercial Timber Operation
- Certification
- Stakeholder Relationships

LOGGING Co.
- Timber

PHASE 2
- Land Base Alliance
- Manufacturing Alliance
- Develop Marketing and Channels
- Forest Policy

SOLID WOOD MFG.
- Timber
- Value-Added SW

PHASE 3
- Growth of Non-Timber Business
- Green Investment Strategy
- Community Economic Development

CBF FOREST CO.
- Timber
- Value-Added SW
- Non-Timber FPs
- Environmental Services

STRATEGIC TARGETS:
- Establish Core Commercial Timber Operation
- Certification
- Stakeholder Relationships
- Land Base Alliance
- Manufacturing Alliance
- Develop Marketing and Channels
- Forest Policy
- Growth of Non-Timber Business
- Green Investment Strategy
- Community Economic Development
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

---

*TFL 57 Land Base*  

- **87,600 Ha.**
  - **Timber Harvest** 17,800 Ha.
  - **Pristine (Echmiis)**
  - **Exclusions: Environment Operability**
  - **Non-Productive**
Our Current Business

Timber Harvest Projections

Projection - Upper Bound
Projection - Lower Bound
Actual and Plan - 2000-2003
Operating Cost Structure

Total Delivered Wood Cost

SG&A
Forest Management
Stumpage
Logging Cost

Harvest Volume (m³/year)

30,000
70,000

$0
$20
$40
$60
$80
$100
$120
$140
$160

$144.00
$129.00
# Iisaak and Global Forest Products

<table>
<thead>
<tr>
<th></th>
<th>Iisaak – B.C.</th>
<th>GFP-South Africa</th>
</tr>
</thead>
<tbody>
<tr>
<td>Total Area</td>
<td>87,000 ha.</td>
<td>67,000 ha.</td>
</tr>
<tr>
<td>Reserves/Net-Downs</td>
<td>85%</td>
<td>45%</td>
</tr>
<tr>
<td>Rate of Harvest</td>
<td>50,000 m³/year</td>
<td>330,000 m³/year</td>
</tr>
<tr>
<td>Transport Cost N.A. Market</td>
<td>$5/Mbf</td>
<td>$60 MBF</td>
</tr>
<tr>
<td>Milling Capacity</td>
<td>0%</td>
<td>100%</td>
</tr>
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</table>
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
  – 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.
  
  $1,230,000
  At 35,000 m³

• **Long-term Capital** – Potential cash deficits on fixed costs (Lower prices, higher costs from business plan assumptions)
  – 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*

  $1,145,000
  Period 2002-05

  Total $2,375,000
Finance Plan

Requirements – Phase 1

<table>
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<tr>
<th>Year</th>
<th>Working Capital - Timber Harvest</th>
<th>Long-Term Capital (Fixed Costs)</th>
<th>Refinance Short-Term Debt</th>
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<tr>
<td>2002</td>
<td>$2,375</td>
<td>$1,230</td>
<td>$390</td>
</tr>
<tr>
<td>2003</td>
<td>$2,025</td>
<td>$755</td>
<td></td>
</tr>
<tr>
<td>2004</td>
<td>$1,725</td>
<td></td>
<td></td>
</tr>
<tr>
<td>2005</td>
<td>$1,500</td>
<td></td>
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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

PHASE 1

LOGGING Co.
- Timber

PHASE 2

SOLID WOOD MFG.
1. Timber-Land Base
2. Value-Added SW

PHASE 3

CBF FOREST CO.
- Timber
- Value-Added SW
- Non-Timber FPs
- Environmental Services

TIMING:

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Business Strategy

Key Bets for Phase 2

1. Timber Harvesting – Land Base Alliance

DECRPIPTION

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 Iisaak 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

<table>
<thead>
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<th>DESCRIPTION</th>
<th>PROBABILITY</th>
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<tr>
<td>1. Timber-Land Base</td>
<td>Low-Medium</td>
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<tr>
<td>• Strong economic rationale</td>
<td></td>
</tr>
<tr>
<td>• Significant uncertainty - outcome of negotiations, political issues, length of process</td>
<td></td>
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<tr>
<td>2. Value-Added SW</td>
<td>Medium-High</td>
</tr>
<tr>
<td>• Except - subject to providing sufficient volumes to market</td>
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</tr>
<tr>
<td></td>
<td>General uncertainty on business conditions.</td>
</tr>
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Key Bets
Potential Value related to Environmental Services . . .?
Brand Value – Product/Place

INVESTMENT  $C MM
Land Base
• Avoided acquisition costs  10.0
• Alliance investment (1.0)

Solid Wood Mfg.
• Alliance investment (.5)

OPERATIONS
Free Cash Flow  3.9

NPV  12.4
Phase 3: Green Investment Strategy

Structure of Transaction

Private Sector Investors

Conservation Values (CC/U’s)

Clayoquot - B Forestry Partnership
  • Agreements / Covenants

Issuer

Iisaak
Ma-mook Dev. Corp.
Biosphere Reserve
Other

Performance Measures
Monitoring and Verification
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