



Koocanusa Value Added Cooperative

Strategic Business And Operational Plan

Prepared for:

- Koocanusa Value Added Cooperative
- Project Proponents

Funded by:



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Prepared by

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Forward

The Kooconusa Value Added Cooperative has prepared this business plan for the launch of its activities. This business plan also forms the basis for an investor prospectus.

The idea to form a value added cooperative emerged from three sawyers who were all members of the East Kootenay Value Added Society (EKVAS). EKVAS is a representative non-profit association of wood product operators involved in the value-added sector of the forest industry in the East Kootenay, ranging in scope from wood lot owners and manufacturers to foresters and artisans. These EKVAS sawyers, who historically had difficulty in obtaining suitable fibre and markets for their production, banded together in October of 1999 and undertook an experimental value added "*pilot project*" that saw 235 Cubic Metres of raw logs converted into about 60,000 fbm of rough semi finished dimension lumber. The project was undertaken under the Societies name.

Because the pilot project was deemed a financial success, and the participants found there were several benefits in working as a larger group, they were keen to undertake similar projects on a permanent basis. However, rather than doing business under EKVAS (no financial benefit to EKVAS but assumed all the financial risk) they decided to form their own business entity and chose a *producer-marketing value added cooperative* as their best form of corporate structure.

The production and delivery methodologies used in the initial pilot project forms the basic blueprint for how the business of the cooperative will be conducted. In addition, a suitable dry kiln will be purchased (or constructed) at a later date to allow the Cooperative to sell finished lumber at substantially higher prices. Copies of the Dry Kiln Feasibility study and a Summary Report on the Pilot Project are enclosed in the appendices.

Founding members of the Cooperative are:

NAME	LOCATION
Bill Luke	Cranbrook, B. C.
Dave Payne	Fernie, B. C.
George Loutrup	Edgewater, B. C.
George Moreau	Invermere, B. C.
Gunter Polivka	Kimberley, B. C.
Jack Meakin	Elkford, B. C.
Kevin Nelson	Invermere, B. C.
Larry Gould	Skookumchuck, B. C.
Mike O'Grady	Fort Steel, B. C.
Tom Hollis	Kingsgate, B. C.
Trevor Mostyn	Elko, B. C.
Walter Kehler	Elko, B. C.

Perceived benefits and rationale for forming a cooperative:

Purchasing power:

Historically, major timber license holders in the East Kootenay have been reluctant to deal with small independent operators because of the relatively small volume of logs they purchase at any one time and the amount of time involved to service them. Through the formation of a Cooperative association, it will not only allow the group to purchase larger volumes at any one time but at discount prices. For example, the 235 cubic meters of logs for the pilot project were purchased for \$61.00 per metre from Crestbrook Forest Industries (CFI) versus a market price of \$75.00 - \$100.00.

Regional wood lot owners have also expressed an interest in supplying the cooperative with fibre. Currently they only have one primary market; CFI, who dictates what price they will pay. Therefore, wood lot owners welcome another buyer in the market place. It is also important to note that wood lot owners have left oversized trees in the forest, as there was simply no market for them in the past. The actual volumes of oversized fibre available is undetermined at this point but is said to be substantial. To begin with, the cooperative expects to process approximately 3,000 cubic meters of logs annually and 6,000 by its 3rd year.

Value Added Opportunities:

For all intents and purposes the value-added wood industry in the East Kootenay remains in its infancy, however, over the past two years sawyer awareness levels have increased three fold. Firstly, through the formation of the value-added society and the sharing of information, secondly, through training at the Value Added Skill Centre in Abbotsford, and thirdly, through various seminars and trade shows. Rocky Mountain Business Development Society and Forest Renewal BC also enabled these results through facilitation, funding and coordination of activities.

The majority of dimension value added producers in the East Kootenay, including both major and small operators, have retained a "2X4 - high volume - commodity" mentality. Cooperative members now realize that there are substantial opportunities for producing specialty items such as semi finished window stock, flooring, paneling, door frame material, clear edge strips, export timbers and many others, which produces substantially more value out of each log. The main obstacle preventing small sawyers from doing this type of custom cutting in the past was that they could not produce the specialty wood products in sufficient volume to be financially viable and justify additional capital investment and profits were often left in the yard as falldown. With a cooperative approach they can become financially viable specialty wood processors.

It is a myth to believe that with falling Annual Allowable Cuts, there is a direct loss of jobs in the forest industry. Rather, as fewer trees are cut the value of these trees increases and processors are pressed to get as much value out of each log as possible. This means that, in reality, more jobs are created as producers move towards specialized products such as paneling, furniture components and flooring.

Production capacity:

On average an individual sawyer can manufacture about 100,000 fbm annually. As a group, this could increase to well over 850,000 fbm, with relatively little capital outlay, as each mill operator has his own manufacturing equipment. In addition, less time is required to find markets. Approaching the market, as “one-force”, will allow access to contracts that “one-ofs” could not deliver on. A centralized concentration site has been located to stock pile production, which will also produce substantial economies of scale through the sharing of yard equipment and manpower.

Marketing & Markets:

Increased production capacity should open up substantial export opportunities in later years as well. An export container holds between 18,000 to 20,000 fbm of finished product depending on the species and dryness. The group could effectively fill 50 export containers per year of finished high-grade product.

Member Specialization:

As individual entities, mill operators are required to find their own markets (usually in competition with other small operators), raw materials, delivery methods and to do their own advertising and promotion. To employ economies of scale and substantially reduce operating costs each member within the Cooperative will specialize in one area of its operations. I.e. log selection and grading specialist, cutting and technical specialist, dry kiln specialist, wrapping and shipping expertise, business and finance specialist and of course a marketing and sales specialist.

Economic:

Major benefits are perceived to be reduced overhead expenses, limited capital outlays, and the potential for a better financial return for their efforts. Through the sharing of financial risks the Cooperative will eventually acquire its own dry kiln and planer, which will produce significantly more revenues through the sale of finished product rather than semi finished. A permanent centralized concentration and shipping point has been identified within the Cranbrook Industrial Park, where a “Value Added Park” is under development. The Coop dry kiln will also be located on this site, becoming the anchor tenant and providing finished grade lumber or cants to other Park remanufacturers, as well as shipping to outside markets.

Until this Park is completed a temporary site has been negotiated with Optimistic Transport Ltd. Rental is based on volumes processed, i.e. \$10.00 per Mfbm.

It is the intent of the cooperative to purchase all production from sawyer delivery members, which will not only include the on grade production for specific orders but also the residual dimension cuts not required for the order. This residual lumber will be stock piled until sufficient volumes are accumulated and then sold off in the most effective manner possible.

Philosophical:

The group has come to realize that they cannot compete effectively with one another over the long run and remain financially viable. In reality, it becomes a price war, with production eventually being sold at cost because value added manufacturers are producing the same product and trying to sell to the same buyers. By sharing one vision and purpose they can work together in unison and ensure the financial viability of their cooperative association. The pilot project was a perfect example of this.

Executive Summary – Business Venture

Mission Statement

(Long Version)

The Kooconusa Value Added Cooperative Association is proud of its development, which has been built upon a strong commitment to working together, researching, processing and marketing a wide range of value added wood products. The cooperative force of our membership is greater than what we can achieve alone—as one we are greater than the sum of our parts.

Our continued sharing of scarce resources, knowledge, market awareness, and motivation will be vital in our ability to meet the needs of our growing customer base.

We will continue to develop and support entrepreneurial value added producers and finished product manufacturers, which will facilitate and promote the development of value added fiber usage within the East Kootenay Region.

Community involvement, quality products at reasonable pricing and prompt professional service will allow us to meet the social, financial, and environmental needs of the marketplace. Realizing change is constant; our ability to manage and change is crucial.

We will continue to be innovators and technologically advanced to ensure our position and growth in the marketplace and continue our role as a leading supplier of quality value added wood products.

Through our dedication and beliefs, the Kooconusa Value Added Cooperative will develop into a profitable and respected leader in the industry.

(Short version)

“Quality Today for Jobs Tomorrow”

(Through its marketing activities, the cooperative will seek to add value to forest resources through the use of available raw material and oversized fibre.)

Business Goals

Short Term

1. Hire a Manager and support staff as required
2. Keep operating and overhead costs at a bare minimum by eliminating excessive fixed costs – all costs are to be variable and related to each delivery contract
3. Develop a strong management and marketing/sales team
4. Increase membership in cooperative to 20 sawyers
5. Attract 5 wood lot owners as delivery members
6. Target Western Canadian markets
7. Secure long-term delivery contracts with buyer
8. Secure long-term fibre supply – Crestbrook and wood lot owners
9. Set up operations within Cranbrook's Value Added Industrial Park, including dry kiln and equipment
10. Process 850,000 board feet of finished and semi finished lumber in first year
11. Secure short and long term financing to meet requirements

Long Term

1. Be recognized as a cooperative that produces quality value added wood products
2. Substantially increase membership and product lines
3. Establish marketing arm that will represent a wide cross section of value added producers in the East Kootenay
4. Become certified wood manufacturer
5. Sell direct to retailers such as Rev'y or Irly Bird
6. Undertake delivery projects with other Value Added Cooperatives forming in the Province

Market Analysis – Coop positioning

Major industry trends

In a word, lumber prices have been “terrible”, and anyone would be hard pressed to find anything that looks the least bit optimistic. At date of preparing this report, benchmark WSPF 2X4 is at \$180.00 per thousand, a 10 year low. In the short term this situation isn’t likely to get any better, since North America is staring at big increases in electrical power and natural gas costs. Kiln drying operators will feel the pain the most, unless alternative drying methods are found.

One reason lumber prices are so low is the excess inventory that has been plaguing the market since the middle of last year. Unfortunately, that situation is still a grim reality. There isn’t any real indication inventories have started declining, but it is still early in the year. Another factor affecting the market is the slowing US economy. The effect of recent interest rate cuts, the first in two years, is difficult to determine at this point, and will not likely be known until the building season gets underway in the spring.

The Japanese economy went into a depression about three years ago and logically it should be ready for a comeback, but that’s not likely to happen in the short term. Some experts have predicted that it will take another two years before any improvement shows up in Japan and some are predicting Japan could trigger a world wide financial crisis. Its debt load is bigger than the US debt load.

In addition, there’s still the softwood lumber problem to deal with, since no new arrangements have been made and the current agreement expires April 1. There is also a Provincial election on the horizon. Critics are not optimistic about the future if another NDP Government is elected. They claim the NDP took the Province from having the best economy in the country to having the worst.

For established, highly leveraged lumber companies, the picture is not bright, but for new upstarts it may be a once in a lifetime opportunity.

Reasons for growth

“Every dark cloud has a silver lining” and this may be the opportune time for the Cooperative to become established. The Cooperative will carefully consider each and every delivery contract with a view to taking on only those that are financially viable; based on a set of contract criteria as outlined in the next section of this report.

The ability to operate with lean overheads and keep quality high will entrench the Coop as a financially viable value added entity.

In addition, estimated production volumes are not considered large by industry standards, meaning the Cooperative will be able to react quickly to changes in the marketplace and consumer taste.

There is a growing market trend for natural wood products. Consumer demand for wood products, natural products, and environmentally friendly products is increasing throughout North America and overseas. The return to natural wood products is quite visible within the construction and renovation industries.

Coop Products & Services

The Cooperative will take an opportunistic approach to market and product development rather than setting goals to capture a certain percentage of an existing market or trying to compete with major lumber manufacturers such as Crestbrook Forest Industries.

To this end, the cooperative will be contract specific, delivering product under contract to several buyers. The Coop has numerous markets and production possibilities available to it; however, for planning and operational purposes it has been determined that each contract undertaken should meet certain minimum requirements, namely:

- Order should be for a minimum of 100,000 fbm (preferably ongoing) or a minimum semi-load order.
- As a minimum, the projected value of green lumber delivered to the Cooperative should be determined to be 200% of the value of logs delivered plus trucking costs. i.e. Logs and delivery costs at \$25,000.00 should equate to green landed value at the cooperative site at \$50,000.00.
- Order must be filled and deliverable within 30 days if shipped green or within 60 days if dried to a specific moisture content
- All orders are FOB Cranbrook, or have letter of credit established.
- All necessary equipment and fibre is readily available
- Sawyers must have the necessary equipment to effectively and efficiently convert fibre into the on grade dimensions required
- Foreign shipments must be export insurable

Product Assessment

Strengths

- Coop can direct a greater proportion of the softwood resources in the East Kootenay towards higher value applications
- Coop has plans to operate a dry kiln in the future, which will process smaller volumes of high quality products on a custom basis and for themselves
- Coop can sell larger volumes of dried lumber at a specific moisture content
- Coop can respond quickly to changes in market conditions with little retooling
- Benefits to members – better financial returns and higher volumes as a group vs. individually
- Well established transportation and distribution channels are readily available
- East Kootenay Sort yard and Wood Lot Association members are anxious to see another buyer in the marketplace rather than selling directly to majors at prices the majors dictate

Weaknesses

- Barriers to entry into the value added industry are relatively low
- Negative perception of some wood species, which may result in the product being by passed or processed incorrectly
- Demand may exceed supply of raw materials availability
- Political, union or global pressures could cause loss of or reduction in raw material supply
- Quality control
- Financial controls and collections
- Changes in softwood lumber agreement could make exporting to US prohibitive
- Existing equipment limits expansion of product lines

Opportunities

- Product line expansion
- Lumber industry is in bottom trough of business cycle
- Economies of scale for product growth
- Become Eco-certified value added processors
- Establish own sort yard
- Centralize and consolidate milling operations
- Sell production direct to retailers
- Move from dimension lumber to prefab, furniture, patio products, etc.
- Apply new technologies when available and when economically viable.

Challenges

- Keep away from mainstream dimensional lumber
- Establish long term source of fibre
- Manage fall down efficiently
- Fine tune production processes that work efficiently
- Ongoing product quality control issues
- Financial controls and profitability
- Conflict resolution among members
- Establish “youth” element in cooperative to ensure coop longevity

Marketing Plan & Strategies

Target Markets

The primary target market for the cooperative is larger retail wood remanufacturers located within British Columbia and Western Canada. Management is very familiar with these contacts and a complete listing of buyers is also readily available in Random Lengths publication "Big Book 2001". This market segment has a large appetite for semi-finished product, which they remanufacture into finished products such as flooring, siding, and window stock. Eventually, it is expected that the cooperative will undertake remanufacturing themselves.

Secondary target markets for the Cooperative include local lumber retailers and direct private buyers. It is estimated that there is the potential to supply in excess of 500 Mfbm of product to this secondary market alone providing enough sawyers can be brought into the Cooperative to meet all demand.

Competition

Interestingly, prior to forming the cooperative association, members were actually competitors with one another. By eliminating this individual approach to operating the group can now compete on the much larger world stage. For the moment, there are no other cooperative associations producing the same products as Koocanusa. There are, however, a number of smaller independent operators who must still be considered competition, but again, this group is restricted to one offs with much lower volumes.

Marketing advantages

- Established list of large wholesale buyers
- Several sources of fibre available
- Qualified interim Cooperative Manager with many contacts throughout the industry
- Expanding consumer base and industry base
- Custom cutting abilities
- Environmentally friendlier products compared to plastic or other synthetic products
- Members can easily retool for specific orders
- New product development is ongoing
- Raw materials can be purchased at substantial discounts
- Larger orders can be undertaken

Marketing Activities

The value added industry is oriented and driven by marketing despite the fact that many existing producers and distribution outlets remain relatively unsophisticated in this area.

The formation of the cooperative and the development of new promotional venues (internet and news letters for example) will significantly alter the marketing requirements and expectations among buyers, retailers and brokers.

The marketing investment dollars required to enter and sustain a presence within the industry at the manufacturing level and within the buyers mind are substantial. To succeed; Koocanusa Value Added Cooperative will plan with financial security and effective marketing as its main considerations.

Marketing Goals

Short Term marketing Goals

1. Sell 850,000 fbm of semi finished dimension lumber in Year and over 2,400,000 by year 5
2. Achieve sales of \$807,500 in Year 1 and over \$2,200,000 by year 5
3. Target western North America in Years 1 through 3 and expand to Eastern North America by Years 4 and 5.
4. Establish outstanding relationships with buyers and independent distributors (brokers) with an effective in house sales force.

Long Term Marketing Goals

1. **To be a desirable “brand name” for dimension lumber products in North America by:**
 - Producing varied product lines that are of the highest quality and affordably priced.
 - Developing a strong and responsive in-house sales organization and external distribution network
 - Developing an excellent reputation for delivering on-grade product
 - Effective promotion and advertising
2. **To have brand name recognition as a “green friendly” lumber producer by:**
 - Undertaking cooperative green promotions, green partnerships and educational programs
 - Obtaining eco certifications for production lines
 - Positioning the cooperative and the production line as “green”
 - Using public relations and publicity to complement promotional activities
 - Establishing an environmental fund to support environmental activities.

3. Maintain growth in annual sales by:

- Ensuring Quality – Quality – Quality
- On grade deliveries
- Effective “Branding” promoting and advertising
- Word of mouth

Risk Assessment

Demand exceeding supply

Demand exceeding the ability of the group to supply is an anticipated market risk for Koocanusa. The primary limitations to growth is not the potential volumes that can be sold but rather the availability of capital and the ability of Coop members to commit to specific volumes annually. The Coop will begin with 12 members but are committed to increasing this to 20 within one year and as many as 30 within 5 years.

The coop has investigated and identified other sawyers that may be called upon to participate in providing product on a sub contract basis to fill Cooperative orders. In addition, Coop members may not be limited to the amount of product they can deliver, and they can be asked to deliver more to fill a specific order.

When (not if) the housing markets in Canada, US and Japan turn around; it is expected to attract new members into the Cooperative, as they will have established lucrative markets by that time.

Loss or decrease in raw materials or wood fibre supply

A decrease in wood fibre supply could occur. The Coop has analyzed the current fibre supply marketplace. Rather than obtaining wood product from primary sources, i.e. old growth, they will be securing a supply of oversized wood that would otherwise be burned or chipped. As a general rule the Coop will not be competing for primary wood supply thereby considerably reducing its market supply risk. The Coop will actually be creating a market for non-traditionally used wood and thereby increase demand for this type of utility wood product. The ultimate goal is to use only wood, which has been certified when such wood becomes available.

Copycat producers

The launch of Koocanusa Coop could lead to copycat producers (either as a cooperative or independently) entering the marketplace. Although there are no known plans for such groups to start a similar Cooperative in the immediate area, there are several groups

throughout B.C. who are in the process of forming a Cooperative association identical to Kooconusa. However, this is not seen as a threat, but rather a positive development, wherein a number of Value Added Cooperatives could band together to become an even bigger player in the industry.

Kooconusa VA Cooperative’s marketing advantage will only become evident with production trials, which it can differentiate its production through consumer education and marketing as required. It is anticipated that a strong distribution and consumer base will be established by the time the copycats surface. Kooconusa Value Added has about a 3-year head start on any similar competitors wishing to enter the market place.

Pricing Pressures

As stated further in this report Kooconusa has no control over market prices for dimension lumber. However, it will protect itself by taking on only contracts that it can fulfill profitably as determined by the prescreening criteria mentioned earlier. Kooconusa will follow the standard value added formula of: Find market first – Find the resources to fill the order – Fill the order.

Sales Projections and assumptions

Given current market conditions, available resources of the membership and feedback to date from marketplace contacts, Kooconusa forecasts strong market acceptance. Kooconusas approach to market entry and expansion will be very gradual over the next 5 years. Distribution will initially be through large retail buyers in Western Canada and perhaps the west coast of the United States. Expansion into other geographic regions and other retail stores may follow in years 3 through 5. Overheads will remain very modest until volumes exceed 1,500,000 fbm in year 3.

	<u>Year 1</u>	<u>Year 2</u>	<u>Year 3</u>	<u>Year 4</u>	<u>Year 5</u>
Fbm	850,000	1,480,000	1,680,000	2,040,000	2,400,000
Cdn \$ Sales Volume	\$807,500	\$1,406,000	\$1,596,000	\$1,938,000	\$2,280,000
Net profit	\$47,050	\$58,821	\$55,588	\$71,440	\$97,240
Cumulative Cash Flow	\$11,850	\$41,971	\$55,503	\$97,243	\$169,588

Pricing strategy

There is little the cooperative can do to control lumber prices as this is determined by the open market. The best it can do is analyze each delivery opportunity to ensure that it meets the financial objectives of the Cooperative. This is true for both semi finished green lumber as well as dry kilned lumber orders. With no specific orders currently on hand, the Coop is basing projections on the actual results of the original Pilot Project. They were:

Product (fob Cranbrook – Fir or Larch)	Green Price Per fbm	Dried Price Per fbm	Increased Dried Value
Clear Italian Window Stock - 2-1/2" X 3-1/2" (finished size) 6 foot through 16 foot - odd and even lengths (a small volume of 3 foot to 5 foot may be accumulated as trim backs) No defects. No sapwood.	\$1,650.00	\$2,400.00	+\$750.00
#4 Clear Window Stock (may contain small pin knots) 2-1/2" X 3-1/2" (finished size) Sapwood allowed. 6 foot through 16 foot, odd & even	\$1,130.00	\$2,000.00	+\$870.00
#2 and better shop 2-1/2" X 3-1/2" (finished size) 4 foot through 16 foot - odd and even lengths	\$ 725.00	\$824.00	+\$99.00
Small export timbers 4-1/4" X 4-1/4"m 5-1/4" X 5-1/4" - No rot, excess wane, shake, bugs or stain. Large spike knots are not allowed. Lengths 8 - 16 foot - odd and even lengths - heavy to 10 foot and 13 foot	\$ 650.00	\$1,200.00	+\$550.00
Large Construction Grade Timbers 6" X 6", 8" X 8", 10" X 10" & 12" X 12". Lengths - 12 through 24 foot	\$ 940.00	\$1,500.00	+\$560.00
Door Core 1-7/8" X 3-7/8". All 7 foot or 14 foot - Sound Tight Knot - No Wane or Heart Centres. Stain and Firm Rot is acceptable	\$ 500.00	\$800.00	+\$300.00
Clear Edge Strips - 1" X 2", 1" X 4", 1" X 4", 1" X 6", 2" X 2", 2" X 4" - 7 foot and 14 foot only	\$1,100.00	\$2,200.00	\$1,100.00

Promotion strategy

To promote its services, Koocanusa Value Added Coop will employ promotional tools appropriate to trade and consumer markets.

Principal promotional tools will be:

- Personal contact and direct selling
- Printed materials, e.g., business cards, handouts
- Cooperative advertising in trade magazines
- Web site
- Polly wrap with Coop logo
- Trade show participation
- Demonstration video – how we do it (under consideration)
- Toll free telephone number (under consideration)

Selling strategy

Koocanusa Cooperative plans to market its products and services using the abilities of its interim and permanent manager(s) and eventually through a network of sales representatives and facilitators such as BC Specialty Woods, B.A. McDougal & Associates and the Interior Lumber Manufacturers' Association. As there is limited time for training and market identification, the sales manager(s) must be experienced and knowledgeable about the industry and have existing contacts. Selling responsibilities will eventually become a specialized in-house responsibility for close-in markets and larger accounts. Brokers will handle more distant markets.

The Coops goal is to eventually handle most of the selling by electronic methods. Trade shows will be used to maintain direct contact with trade and consumer groups.

Selling Terms

- Preference is for fob Cranbrook if it can be negotiated
- 100% of shipment invoice is due 30 days following shipment from the Cooperative (Bank reports to be obtained for credit buyers)
- Overdue accounts are charged 2% per month.

Distribution & Delivery Strategy

Distribution channels within the industry include sales representatives, brokers, distributors, agents, wholesalers and producer direct. The later can involve distribution channels like a sales manager, Internet ordering or trade shows. There is a trend within

the industry towards more company direct channels. The volume purchase power of Coop’s target markets and the accessibility of the Internet are eliminating the need for distribution intermediaries. Producers as well are seeking less costly distribution methods to reduce sales costs.

These trends are creating distribution and sales opportunities through electronic communications (Internet and toll free numbers), however, most buyers prefer to deal face to face.

Consolidation and Shipping

From the outset, Koocanusa Coop will handle all production warehousing and shipping logistics to the buyer. A temporary consolidation site has been identified as well as a permanent long-term site, which should be available within 6 months. The Cooperative manager will handle all orders and shipping logistics. Trucking will be the most utilized form of shipment within North America, providing quick delivery times year round.

Product Servicing

Both the industry and the buyer expect after sales servicing in today’s value added marketplace. Koocanusa Value Added Cooperative proposes the following to build “brand” loyalty and repeat orders:

- Sales servicing toll free 1-800 number for buyers
- Production demonstration video, free of charge to prospective buyers
- Product information for trade, sales reps, agents and distributors
- Guarantee to replace any off grade or inferior production

Estimated 5 Year Marketing Budget*					
<u>Marketing Activity</u>	<u>Year 1</u>	<u>Year 2</u>	<u>Year 3</u>	<u>Year 4</u>	<u>Year 5</u>
Print Media	1,100	750	1,000	1,500	2,500
Web Site	1,000	500	500	500	500
Trade Shows	500	1,000	1,500	2,000	3,000
Logo & Image	500	250	250	250	250
Toll free	<u>200</u>	<u>400</u>	<u>1,000</u>	<u>2,000</u>	<u>3,000</u>
<i>Total</i>	\$3,300	\$2900	\$5,250	\$6,250	\$9,250

**Does not include personnel and administration costs*

Proposed Marketing and Promotional Tools – Implementation Timeline

	<u>Year 1</u>	<u>Year 2</u>	<u>Year 3</u>	<u>Year 4</u>	<u>Year 5</u>
Print Media					
Banner/Signage	*	*	*	*	*
Printed Materials	*	*	*	*	*
Brochure	-	*	*	*	*
Wrapping labeling	*	*	*	*	*
Magazine/newspaper	*	*	*	*	*
Coop Advertising	-	*	*	*	*
Mail outs	-	-	*	*	*
Electronic Media					
Web Site	*	*	*	*	*
1-800 Number	-	*	*	*	*
Demonstration videos	-	-	-	*	*
e-commerce	-	*	*	*	*
Sales Promotions					
Trade shows	*	*	*	*	*
Special demos	-	*	*	*	*
Product donations	-	-	*	*	*
Sponsorships	-	-	-	*	*
Showcase site	-	-	*	*	*
Export Trade promo's	-	-	-	*	*
Sales Force	*	*	*	*	*
Public Relations	*	*	*	*	*
Green Certifications	-	-	*	*	*
Image/Logo	*	*	*	*	*
Product Servicing	*	*	*	*	*

Land, Building and Equipment

Location

The Cooperative has entered into a temporary lease agreement with Optimistic Transport, which is centrally located within the City of Cranbrook's Industrial Park. This site is ideal for processing member's deliveries and has ample room for sorting, grading, wrapping and shipping. This temporary site also adjoins the future permanent home of the Cooperative, on land currently being developed as a Value Added Industrial Park. This site will also house the proposed dry kiln as well as a shared use facility for manufacturers of flooring and other high-end wood products.

Site usage and warehousing is being billed at a very reasonable \$10.00 per Mfbm and Optimistic Transport will ship all production.

Buildings

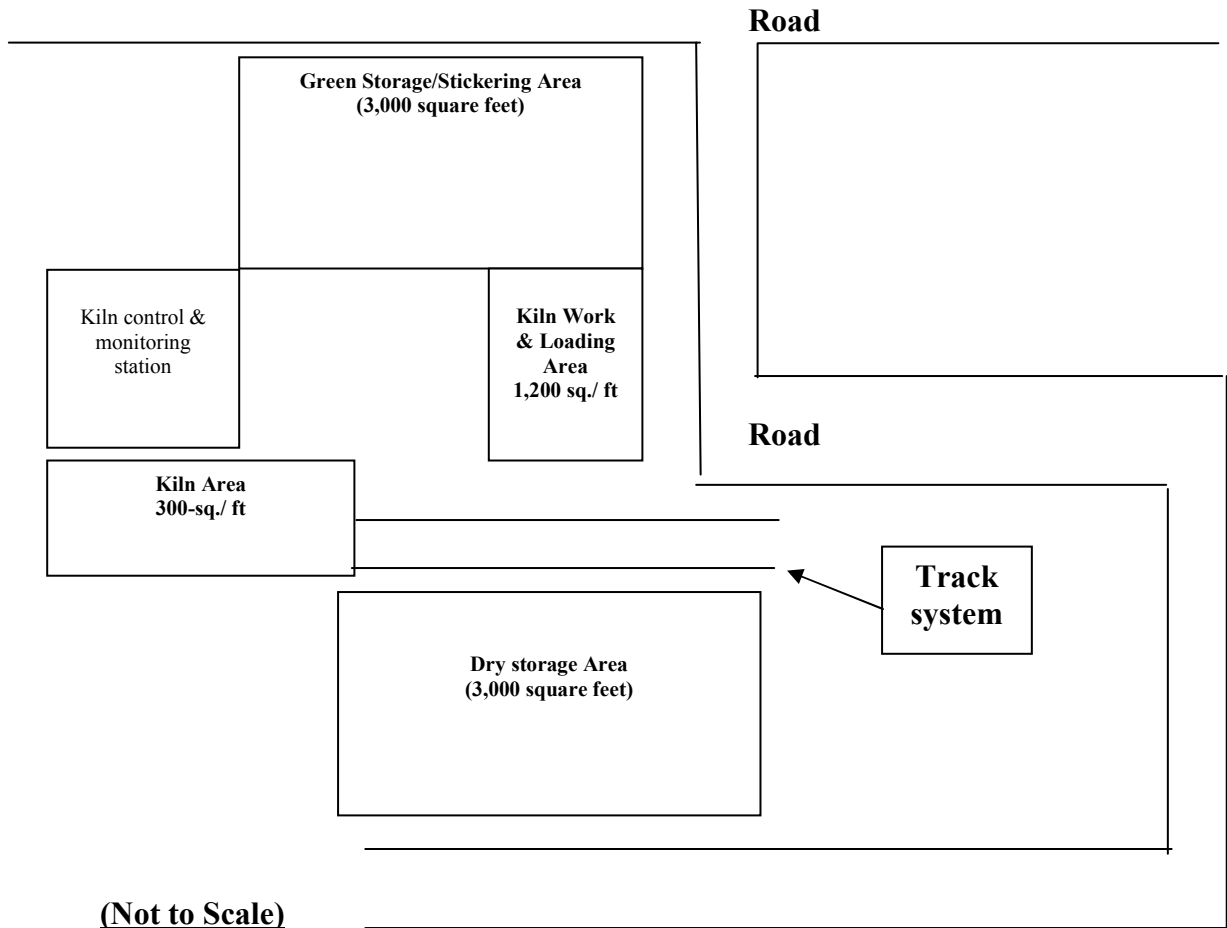
The only buildings anticipated are the dry kiln and a covered storage area. Based on the recent kiln feasibility study, building costs (excluding the cost of the actual dry kiln) will be approximately \$55,000.00. These costs are based on having the facility constructed by outside contractors but there will be substantial savings if the members of the Cooperative volunteer their time and materials to construct the facility themselves.

Equipment

Production equipment constitutes a substantial investment for any forestry or wood related company. Machinery is costly, and machine manufacturers are for the most part located outside Canada, rising maintenance and prices even further. Koocanusa Coop's approach effectively eliminates the need for sophisticated equipment as all processing equipment is already owned by each delivery member and located on his or her own property. A forklift is available from Optimistic Transport and the cost of usage is included within the monthly rental fee for the site. In future years the purchase of a forklift, office equipment and other yard machinery will be necessary.

TYPICAL COOPERATIVE KILN SITE LAYOUT

- Green Storage Area is covered - post and beam construction with packed gravel floor.
- Kiln Work & loading area is covered post and beam construction with packed gravel floor
- Kiln Control & monitoring station could be small mobile or prefab building
- Kiln Area is not covered - track system may or may not be covered
- Dry storage area is covered post and beam construction with packed gravel
- Trucking access road and yard is crushed gravel. Total site requirements are estimated to be 15,000 square feet.



Operations - Green Lumber Deliveries

The primary limitation to the Cooperatives growth is not the potential volumes that can be processed, but rather the ability of cooperative members (sawyers) to commit to specific volumes annually and the ability to find profitable markets.

It has been expressly agreed from the outset that members may continue servicing their existing clients with product, but are committed to delivering the annual volume of product subscribed for to the Cooperative. This is incorporated in the articles of incorporation. Under no circumstances are members to take advantage of markets established by the Koocanusa Value Added Cooperative Association. Any potential or possibly conceived conflicts are to be reported to the board of directors for ratification.

The manufacturing process involved in producing semi finished dimension lumber is straight forward and can be easily broken down into a variety of production configurations, making it advantageous for Koocanusa Coop to suit capabilities and capacities of each member. While the coop intends to become a full production operation in the future, from rough to finished product, in the short term it plans to only process semi finished product of its delivery membership.

The production equipment and techniques used in the manufacturing process are universal.

<u>Steps</u>	Koocanusa Production Process	
	<u>Now</u>	<u>Future</u>
Milling	X	
		Raw log is milled at members site into semi finished dimension lumber as per grade requirements
Drying		X
		Once milled, product is stacked for drying. Spacing between the cants is kept equal and the sticks between the rows are vertically aligned and evenly spaced 24 inches apart. Product is dried to 20% average moisture content (15% - 24%). Drying can also be accomplished by air drying outside during summer months or kiln dried for 7 – 9 days depending upon greenness and wood species
Planing		X
		Product is desticked and moved to planing. If the product arriving is already planed but not canted it goes through the process
Cutting		X
		Chop saw cuts product to desired lengths
Shipping	X	
		The product is wrapped, stored and readied for shipping

Inventory and Quality Controls

Inventory Controls

The Koocanusa Value Added Cooperative will have two types of inventories to manage: raw logs and semi finished lumber products. On-site raw product inventory levels will be kept to a minimum using raw product supply availability as an inventory management tool. It is possible to keep inventory to a minimum at member's sites since the availability of the type and wide range of raw product required is easily accessible within the region. In addition, all raw materials supplied are for a specific order and the cooperative will purchase on grade production plus accept delivery of usable falldown that will be stock piled and liquidated at a later date.

The B.C. wood industry has a large stock of raw product inventory. It is estimated that 6 to 10 million feet are available on a consistent basis. Doug fir and Larch as a species best fits Cooperative requirements as they are in abundant supply locally.

Providing a New Market for Raw Product

Wood attributes that would normally be rejected will not affect supply. Sawmill operations are continually looking for markets for fall down, diseased shorts, crooked, checked and/or pulp diversion wood. Koocanusa Cooperative is offering these by-products a new selling market, creating a market opportunity for "lost wood". Because of the large volumes expected, niche markets may be accessible, producing quality products from this lost and waste wood supply.

Semi Finished Product Inventories

Semi finished product inventory turnover is forecast to be 850,000 fbm in the first year. All production is expected to be presold resulting in no finished product being stored on site for any length of time. The Manager will control these inventories.

Samples of Inventory and Quality Controls

- Raw materials will be inspected and approved for suitability/recovery
- Grade factors will be established with delivery members to ensure quality
- Inventory supply will be monitored and managed by the Manager. Peak inventory production periods are expected between June and September.

Materials and Suppliers

A. Raw Product Suppliers

The geographic location of the Cooperative in the East Kootenay places it within one of the premier areas in the world for raw product supply with a well established forestry infrastructure. A wide choice of softwood species and best qualities for selected species is readily available.

Potential log suppliers have been identified and contacted. In excess of 500 cubic meters per month of raw logs have been discussed and can be supplied by Crestbrook Forest Industries, The Kootenay Log Sort Yard or Wood Lot Association members (seasonal). The Coop could also source logs with a wood supply broker from the Lower Mainland.

B. Equipment and Materials Suppliers

Equipment manufacturers have also been identified and contact by the Coop. The machinery and materials required for the production process were described under the Production and Manufacturing Process. Not until the Coop is ready to move into producing finished products such as flooring or furniture grade lumber, will any capital outlays be made for serious processing equipment. (Also, refer to kiln feasibility study)

C. Other Materials Suppliers

The manufacturing process requires other materials such as dunage, pallets, Polly wrap, strapping machine and small tools. These are common supply items, and suppliers and/or distributors are found in the immediate vicinity. Suppliers of plastic wrap have been contacted for price quotes with Coop logo.

Production Personnel

The manufacturing work force of the Cooperative, as it currently stands, is 12 delivery shareholders. These members are not paid a salary but are paid for the value of their lumber deliveries as determined by their delivery tally. To begin with there will be no full time salaried employees. An interim manager has been hired who will be compensated at 5% of sales. By year two, in addition to the commissioned manager, there will be a need for at least one part time office employee to handle reports and paper work. There is a good supply of skilled and unskilled people within the region to draw from. Unemployment rates are currently in excess of 9.5% and the Cooperative anticipates no problem hiring a qualified office employee when the time comes.

Once the delivery production is received at the concentration site the members will be required to assist with sorting, trimming, grading and wrapping, all on a specified day. This time will be “booked”, with compensation determined by the directors at the end of the year.

Forecast 5 Year Production Personnel Requirements					
Job Title	Year 1	Year 2	Year 3	Year 4	Year 5
Commissioned Manager	1	1	1	1	1
Office Staff	½	1	1	2	2
Receiving/Shipping	-	½	1	1	1
General Labor	½	1	1	2	2
Forklift Operator (Excludes Kiln Personnel)	-	½	1	1	1
Total	2	4	5	7	7

General Job Descriptions

Commissioned Manager Supervise all activities of the Cooperative including production processes and personnel (with assistance from other members as required) Primary responsibilities include sales and marketing – raw material purchases, and scheduling.

Office Staff Consolidating tally sheets, invoicing, accounts recoverable, accounts payable, GST, book keeping and banking (Sundry duties as assigned)

Receiving Shipping Supervise the tally deliveries, grading and sorting. Oversees yard activities, storage, wrapping and shipping. Supervises general labor pool.

General labor Green chain sorting, and grading, shipping and general facility maintenance

Fork lift operator Unloading member deliveries and loading shipments onto flatbeds (could be from general labor pool)

Wages and Benefits

Koocanusa will eventually offer competitive labor rates and benefit packages. A 40-hour workweek, 2-week holidays, statutory holidays, medical benefits will be provided. All required labor force employment laws and Workman's compensation will be followed. Benefits are calculated as 27% of wages.

Average Hourly Production Labour Rates		
<u>Job Title</u>	<u>Cdn \$'s</u>	<u>With Benefits</u>
Manager – 1 st Year	(Commissioned)	N/A
Manager - 2 nd Year	\$20.00	\$24.00
Office Staff	\$ 9.00	\$11.00
Receiving/Shipping	\$11.00	\$13.97
General Labor	\$ 8.50	\$10.80
Fork Lift Operator	\$12.50	\$15.85

Forecast of Annual Salaried Employees & Benefits Cost					
<u>Job Title</u>	<u>Year 1</u>	<u>Year 2</u>	<u>Year 3</u>	<u>Year 4</u>	<u>Year 5</u>
Manager	40,375	48,000	48,000	48,000	51,000
Office Staff	9,530	20,103	22,992	43,200	43,200
General Labor	9,350	45,456	51,000	63,000	74,100
Fork Lift Operator	-	16,500	33,000	33,000	33,000
Total Cost	59,255	89,148	154,992	187,200	201,300

For planning purposes we have started by eliminating as many fixed operating and administrative costs as possible and confirmed variable expenses. In the initial years there will be little in the way of fixed costs such as telephone, salaried wages, utilities etc. as these services will continue to be provided by the commissioned manager or CFDC. To keep labor costs down, delivery members must be prepared to “bank” their time during the grading, sorting, and wrapping process.

From here we've extrapolated the minimum annual sales required to meet the remaining fixed costs and to provide a reasonable return on investment. Alternatively, specific products and future market values could have been guesstimated, but this is considered less meaningful and far less reliable.

Once minimum annual revenue targets were determined it is than a question of finding delivery projects to reach the target.

Cooperative Capacity

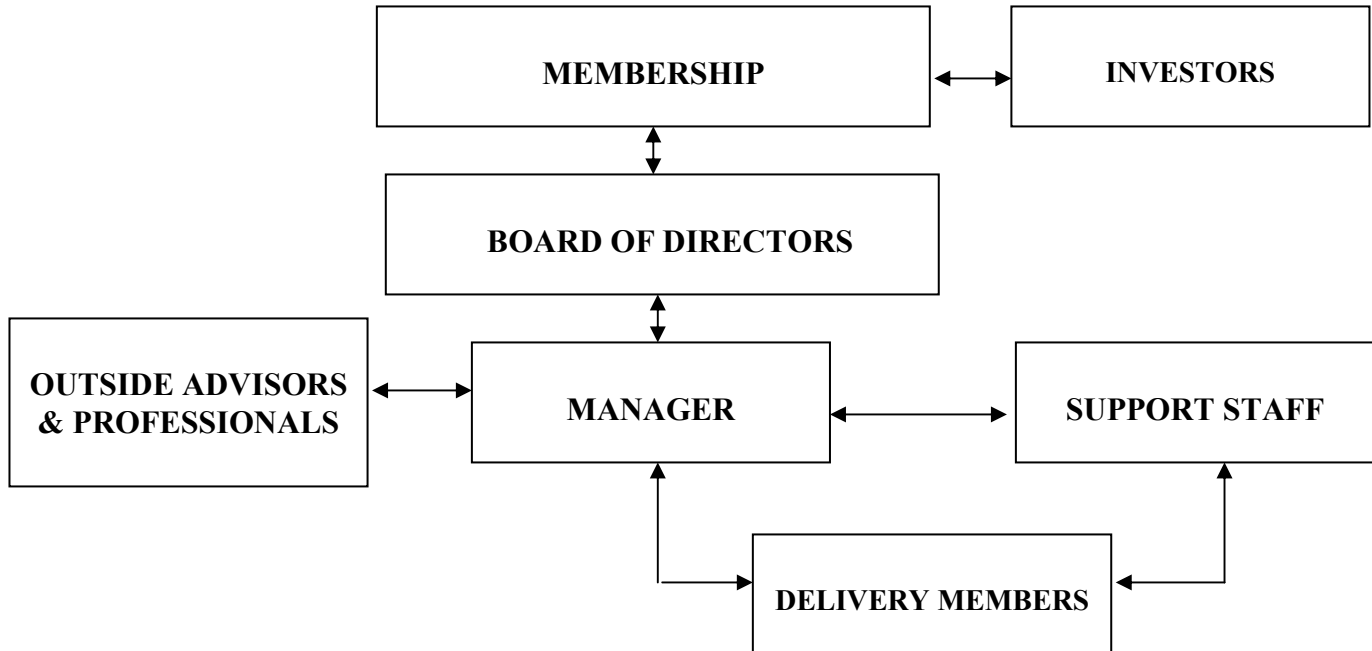
Assumptions:

- 1 sawyer can produce 500 fbm per day
- 300 day operating year
- Maximum production per sawyer per year = 150,000 fbm
- There will be 11 delivery members (sawyers)
- 10 delivery shares per member
- Delivery share entitles holder to deliver a minimum of 10,000 fbm per year
- Approximately 850,000 fbm (at \$950.00 rough-green) needs to be processed to break even

Therefore:

- On average the 11 sawyer delivery members have committed to 1,100,000 Fbm of semi finished green lumber annually
- Average delivery shares per member = 10 shares
- 77% of sawyer capacity or 850,000 fbm is required to break even
- Operating expenses are restricted to management wages at 5% of sales and site lease at \$10.00 per Mfbm and nominal administration costs.

Organizational Structure & Management



Membership Criteria

Membership in the cooperative is open to:

- Any natural person, or company, cooperative or incorporated society may apply to become a member of the Cooperative. Application for membership – wherein the applicant shall agree to be bound by and to comply with all of the provisions of the Cooperative's Rules. No applicant shall become a member unless the Board of Directors has accepted them.

On application, an applicant must:

- Purchase one Membership Share in the Cooperative (\$50.00), and
- Enter into contracts to patronize the Cooperative upon such terms and conditions as the Board of Directors may require regarding the purchase of Delivery shares, product delivery specifications, etc., pursuant to reasonable policies of uniform application.

Members of the Cooperative shall be individuals and companies who are able to deliver logs, value added lumber, or other products or services to the Cooperative. However, no individual member may also own or be regularly employed by a company that is also a member.

On acceptance into membership, a member shall be required to:

- Purchase and continue to hold a minimum of **ten** Delivery Shares in the Cooperative, and up to a maximum of one hundred Delivery Shares, the number to be determined from time to time by the Directors.
- Enter into and maintain a Cooperative marketing contract for the delivery of logs, value added lumber, and other products within such terms and conditions as the Directors may require.

In the case of members delivering lumber products, the following is an example of a possible share subscription:

	Type of Share	Cost Per Share	Minimum Commitment
Sawyer	Membership	\$ 50.00	-1 share
	Delivery	\$ 150.00	-10,000 fbm of semi finished lumber
	Investment	\$ 1,000.00	-Optional

Share Purchase

The capital of the Cooperative shall consist of three classes of shares with the following rights and restrictions:

1. **The Membership Share**, which shall be redeemable on termination of membership, shall not be transferable, and shall bear no rate of interest. Each membership share will cost \$50.00
2. **The Delivery Share**, will cost \$150.00 per share, which shall bear no rate of interest and shall entitle the member:
 - to deliver to the Cooperative for sale or processing a specified unit of logs, value added lumber, or other products,
 - to a patronage dividend in such amount and under such terms as shall be determined by the Directors from time to time, and

- to have delivery shares redeemed on agreement with the Board of Directors to reduce the amount of logs, value added lumber, or other products the member may deliver to the Cooperative for sale or processing.
3. **The Investment Share**, will cost \$1,000 each, not be transferable, **bear a rate of interest** to be determined from time to time by the Board of Directors, and shall be redeemed at such time and under such other terms as shall be decided from time to time by the general membership. These shares may be sold to members and non-members. Non-members holding Investment Shares may vote on issues that affect the value or repayment of these shares.

Upon acceptance into membership, every member shall be required to purchase in addition to the **Membership Share purchased on application, One Delivery Share** per unit of logs, value added lumber, or other products agreed to be provided for sale by the member to the Cooperative, with a minimum purchase of ten Delivery Shares per member,

No member may purchase more than:

- 1 Membership Share,
- 100 Delivery Shares.

All shares in the Association must be paid for in full in cash, and no part of the funds of the Association are to be employed in loans on the security of its shares. The directors may make calls on the members for purchase of additional shares, or for any money unpaid on their shares, and a call is deemed to have been made at the time when the resolution of the directors authorizing the call was passed.

If a call is not paid before or on the day appointed for payment, the person from whom the call is due must pay interest at the rate of prime lending rate at the Royal Bank (calculated monthly based on the rate on the first day of each month) per year from the day appointed for the payment to the time of the actual payment, but the directors are at liberty to waive payment of that interest wholly or in part. No member is to receive any dividend or interest on his or her shares, except in proportion to the amount paid up.

Every person whose name is entered in the register of members is entitled to a certificate under the seal of the Association, specifying the shares held by them, the rate of interest (if any) and the amount paid up.

Member and Delivery shares may be transferred with the consent of the Cooperative and only to persons or corporations eligible for membership if a member's business is sold, pursuant to reasonable policies of uniform application consistent with these Rules.

The instrument of transfer must be in a form approved by the Directors, and when issued must be accompanied by the certificate of the shares to which it relates. No transfer will be deemed to have been made until the name of the transferee is entered into the register of members.

**Management Case - Pro Forma
Starting Share Capital – Delivery Members**

	Member Shares	\$ Value	Delivery Shares	Fbm	Share \$ Value	Total \$ Value Of Capital
Member 1	1	\$50	10	100,000	\$1,500	\$1,550
Member 2	1	\$50	10	100,000	\$1,500	\$1,550
Member 3	1	\$50	10	100,000	\$1,500	\$1,550
Member 4	1	\$50	10	100,000	\$1,500	\$1,550
Member 5	1	\$50	10	100,000	\$1,500	\$1,550
Member 6	1	\$50	10	100,000	\$1,500	\$1,550
Member 7	1	\$50	10	100,000	\$1,500	\$1,550
Member 8	1	\$50	10	100,000	\$1,500	\$1,550
Member 9	1	\$50	10	100,000	\$1,500	\$1,550
Member 10	1	\$50	10	100,000	\$1,500	\$1,550
Member 11	1	\$50	10	100,000	\$1,500	\$1,550
TOTAL	11	\$550	110	1,100,000	\$16,500	\$17,050

The above is only one of several possible capital scenarios and assumes that founding *sawyers will each purchase the minimum number of delivery shares required.*

Operations

Servicing Process

Stage 1

Once a purchase order has been accepted by the cooperative as a suitable undertaking:

1. The manager will contact and explain the contract and dimension requirements to all sawyers and obtain commitments from all or any of the sawyers as to how much volume of the contract each one is willing to commit to.

2. The manager will complete coop delivery agreements with each member participating in the order specifically identifying:
 - Required volume
 - Required species
 - Required dimensions
 - Required grades
 - Delivery deadlines to the cooperative yard
 - Contract price to sawyer and terms of payment
 - Cumulative total of lumber delivered under his delivery share agreement to date
3. The manager will then negotiate the price for quality logs in such species and quantities to fill the order from one of its log suppliers. Cost of logs and delivery costs must meet cooperative requirements unless agreed to otherwise by the participants.
4. Once log purchase has been arranged each sawyer is to make arrangements for the payment and delivery of his log.
5. Sawyers will then commence with the filling of the order for the cooperative and apprise the manager on a regular basis (every 3 days) as to the progress being made and if his expected delivery time can be met.
6. All lumber from all sawyers is to be delivered to the cooperative yard on or before the delivery date established. Each sawyer is to arrange for the delivery of his production from his site to the Coop yard. Upon delivery, each and every sawyer is expected to assist with the sorting, grading, tallying and stacking of the order.
7. Each sawyer will be required to confirm his tally sheet and the value placed upon it by “signing off” his tally sheet.
8. The value of each sawyers delivery will then be tabulated and payment made at the agreed upon green delivery price.

Stage 2

Once all member lumber has been received graded, tallied and sorted it is then either:

- wrapped and shipped to its intended market if order was for semi finished green or processed through the dry kiln and planed if a finished kiln dried order, wrapped and shipped or
- distributed to other value added producers in the park

“SAMPLE PROJECT FLOW ANALYSIS” (LOGISTIC DETAILS)

Collective approval for a delivery project must be obtained from all delivery sawyers. This approval will exist in the form of a contract for participation.

Based upon the contract for participation, a qualified member(s) will source the logs required and determine distribution among the participants. Participants are required to use their own financial resources to purchase their logs but may apply for assistance through Community Futures Development Corporation (CFDC).

Alternatively, CFDC will entertain a request for a line of credit for the Cooperative to facilitate the purchase of raw materials.

Supplier is to receive payment for the logs as they are loaded, scaled and shipped.

Logs are delivered by self-loading truck to each operator involved in the order. The trucking costs incurred are also the responsibility of each operator. However, it is likely that a trucking company would want to deal with the main body of the Cooperative and may want to submit one bill to the Coop. In this case, each operator will be assessed the trucking fees and deducted from delivery proceeds. Deliveries to each operator will be recorded by the manager and signed for by each individual operator upon receipt of the logs.

Each operator involved in the delivery project will receive a purchase order for his lumber production from the Cooperative. This purchase order will come complete with grading information, size parameters, length parameters, species identification and pricing information.

Each operator will process the logs delivered to his operation, into lumber according to the purchase order specifications and deliver the lumber to the concentration facility on or before the agreed upon delivery date. It is the responsibility of each operator to arrange and pay for the transportation of his semi-finished lumber to the concentration site.

Management is currently investigating the possibility of having the College of the Rockies truck-training department undertake the transportation of each operators production to the concentration site. This may be gratis or at a nominal cost.

It was imperative that each operator cut a pure species. Species should not be mixed at any stage of the production of the lumber.

The cutting specifications listed below were applicable to the pilot project in either Douglas Fir or Western Larch. The two species were packaged and identified separately before delivery to the concentration site.

1. Clear Italian Window Stock - 2-1/2" X 3-1/2" (finished size) 6 foot through 16 foot - odd and even lengths (a small volume of 3 foot to 5 foot may be accumulated as trim backs) No defects. No sapwood. Price fob Cranbrook - \$1,650.00 Mfbm
2. #4 Clear Window Stock (may contain small pin knots) 2-1/2" X 3-1/2" (finished size) Sapwood allowed. 6 foot through 16 foot, odd & even. Price: fob Cranbrook - \$1,130.00 per Mfbm
3. #2 and better shop 2-1/2" X 3-1/2" (finished size) 4 foot through 16 foot - odd and even lengths. Price: fob Cranbrook: \$725.00 per Mfbm
4. Small export timbers 4-14" X 4-1/4"m 5-1/4" X 5-1/4" - No rot, excess wane, shake, bugs or stain. Large spike knots are not allowed. Lengths 8 - 16 foot - odd and even lengths - heavy to 10 foot and 13 foot. Price: fob Cranbrook: \$650.00 per Mfbm
5. Large Construction Grade Timbers 6" X 6", 8" X 8", 10" X 10" & 12" X 12". Lengths - 12 through 24 foot. Price: fob Cranbrook \$940.00 per Mfbm
6. Door Core 1-7/8" X 3-7/8". All 7 foot or 14 foot - Sound Tight Knot - No Wane or Heart Centres. Stain and Firm Rot is acceptable. Price: fob Cranbrook - \$500.00 per Mfbm
7. Clear Edge Strips - 1" X 2", 1" X 4", 1" X 4", 1" X 6", 2" X 2", 2" X 4" - 7 foot and 14 foot only. Price: fob Cranbrook - \$1,100.00 per Mfbm

Each individual operator's production will be color coded for identification.

Provided sufficient advance notice is given, the Coop manager will receive production from operators at the concentration site during acceptable hours.

The coop manager or assistant will sign a delivery slip describing the product's grade size and tally as well as the purchase order number and name of the individual operator supplying the lumber. The site supervisor will assign an area for the storage of the product and arrange to have the product unloaded and placed in that area. A color inventory control system will be utilized and placed on each unit of lumber delivered by the individual operator, referencing the name and order number of the operator as well as the size and grade of the material.

When a shippable volume of one or more items has been accumulated in the storage area the manager will arrange to have the operators attend the site on a specific date to assist with the sorting, grading and wrapping of the production. The time put in by participants during the sorting process will be credited and “banked” to each participant, with the level of compensation determined at the end of the Cooperatives fiscal year.

The supervisor of the site will provide a forklift operator to move production around the yard as required. A coop participant with grading experience will grade and mark the lumber for trimming and supervise the packaging of the finished lumber.

As each individual operator's lumber is delivered, the manager or his assistant will tally up the on-grade volume and provided a tally sheet to the operator. Any falldown developing from processing will be accepted by the coop and accumulated for sale at a later date. Payment will not be given to the operator until the falldown is disposed of.

According to the specifications of the purchase order issued to each individual operator, individual cheques will be issued upon delivery and tally of the production

Financial Forecasts

Projected 5-year income statement

	Year 1	Year 2	Year 3	Year 4	Year 5
Sales	807,500	1,406,000	1,596,000	1,938,000	2,280,000
Cost of Goods Sold					
Purchases	686,375	1,195,100	1,356,600	1,647,300	1,938,000
Wrapping	<u>2,400</u>	<u>3,600</u>	<u>6,000</u>	<u>4,800</u>	<u>9,600</u>
Total Cost of Goods	688,775	1,198,700	1,362,600	1,652,100	1,947,600
Gross Profit	118,725	207,300	233,400	285,900	332,400
Expenses					
Management Wages	40,375	48,000	48,000	48,000	51,000
Employee Wages	18,880	82,059	106,992	139,200	150,300
License/Dues	620	620	620	620	620
Site Rental	8,500	14,800	16,800	20,400	24,000
Marketing	<u>3,300</u>	<u>3,000</u>	<u>5,400</u>	<u>6,240</u>	<u>9,240</u>
Total Expenses	<u>71,675</u>	<u>148,479</u>	<u>177,812</u>	<u>214,460</u>	<u>235,160</u>
Surplus before dividends	47,050	58,821	55,588	71,440	97,240
Allowance for banked time	8,500	12,000	15,000	17,000	20,000
Allowance for dividends	2,500	3,700	4,000	5,000	6,000
Net Surplus	36,050	43,121	36,588	50,440	71,240

Start-up costs

Nominal expenditures are planned for start up as the group has all of the necessary production equipment on their home sites. A business license from the City of Cranbrook will be required at a cost of \$495.00 per year. Business cards and a Kooconusa Value Added Cooperative sign or banner will be purchased at a total cost of \$500.00. Consulting, meeting facilitation, and the preparation of this business plan was funded by a grant from the Ministry of Community Development, Cooperatives and Volunteers.

5-year cash flow forecasts

	Year 1	Year 2	Year 3	Year 4	Year 5
Cash Receipts	755,250	1,377,300	1,529,500	1,909,500	2,251,500
Cash Payments	760,450	1,347,179	1,538,012	1,867,760	2,179,160
Cash Flow	(5,200)	30,121	(8,512)	41,740	72,340
Accounts Receivable	57,000	95,000	133,000	161,500	133,000

No allowance has made for trade debt/accounts payable, which could improve cash flows

Assumptions to Income and Cash Flow Statements

Revenues:

Revenue projections have been based on the number of sawyers starting the cooperative and projected new sawyer members who will join over the next five years. Delivery shares entitle the holder to deliver 10 Mfbm of semi-finished product annually. It is also expected that some sawyers will take more than one delivery share as estimated below.

	<u>Year 1</u>	<u>Year 2</u>	<u>Year 3</u>	<u>Year 4</u>	<u>Year 5</u>
Delivery Sawyers	14	20	20	20	20
Delivery Shares	16	24	26	28	30
Fbm Capacity	1,600,000	2,400,000	2,600,000	2,800,000	3,000,000
Planned production	850,000	1,480,000	1,680,000	2,040,000	2,400,000
Capacity Utilization	53%	62%	65%	73%	80%

For planning purposes we have estimated that the average sale will generate \$950 per thousand, but contracts will likely be in the range of \$800 - \$1,400 per thousand.

Below, we've prepared a sensitivity analyses, showing the effect on the bottom line resulting from variances in the average selling price. Analysis is based on volume estimates for the 2nd year.

Average annual fbm	1,480,000	1,480,000	1,480,000	1,480,000
Average rate be Mfbm	<u>\$850</u>	<u>\$1,050</u>	<u>\$1,200</u>	<u>\$1,400</u>
Gross Revenues	\$1,258,000	\$1,554,000	\$1,776,000	\$2,072,000
Cost of Sales	<u>\$1,072,900</u>	<u>\$1,324,500</u>	<u>\$1,513,200</u>	<u>\$1,764,800</u>
Gross Profit	\$185,100	\$229,500	\$262,800	\$307,200
Fixed Expenses	<u>\$148,479</u>	<u>\$148,479</u>	<u>\$148,479</u>	<u>\$148,479</u>
Surplus	\$36,621	\$81,021	\$114,321	\$158,721
Surplus at \$950 per M	<u>\$58,821</u>	<u>\$58,821</u>	<u>\$ 58,821</u>	<u>\$ 58,821</u>
Improvement (deficit)	<u>(\$22,200)</u>	<u>\$22,200</u>	<u>\$55,500</u>	<u>\$ 99,900</u>

Paid for Deliveries: Based on the tallied value of deliveries (gross revenues) made by members at 85%. 15% is retained as operating capital to cover overheads and payroll.

Wages – Manager: During the first year, the manager will be compensated at 5% of gross sales. In subsequent years, compensation will be a flat salary of \$48,000 per year including benefits.

Wages – Office: Beginning with a part time office employee for the first year, this will grow into a full time position by the beginning of the 2nd quarter of the 2nd year. Details are contained on pages 23 and 24 of the business plan.

Wages – Other: Details are contained on pages 23 and 24 of the business plan.

License/Dues: The City of Cranbrook has estimated that a business license for the Cooperative will be \$495.00 per year. Balance of expenditures are for association dues such as B.C. Specialty Wood, Interior Lumberman's Association or Woodvine.

Marketing: Details are contained on pages 16 and 17 of the business plan.

Green Deliveries	Start-Up	Mon-1	Mon-2	Mon-3	Mon-4	Mon-5	Mon-6	Mon-7	Mon-8	Mon-9	Mon-10
REVENUES											
Member shares	17,050	-	-	1,550	1,550	-	-	-	-	-	-
Delivery Members	11	11	11	12	13	13	13	13	13	13	13
fbm produced	-	75,000	80,000	75,000	100,000	75,000	75,000	75,000	85,000	65,000	50,000
Average price per mfbm	-	950	950	950	950	950	950	950	950	950	950
Total Sales	-	71,250	76,000	71,250	95,000	71,250	71,250	71,250	80,750	61,750	47,500
Cash Receipts	17,050	-	71,250	77,550	72,800	95,000	71,250	71,250	71,250	80,750	61,750
COST OF SALES											
Paid for deliveries (85%)	-	60,563	64,600	60,563	80,750	60,563	60,563	60,563	68,638	52,488	40,375
Wrapping Materials	-	200	200	200	200	200	200	200	200	200	200
TOTAL COGS	-	60,763	64,800	60,763	80,950	60,763	60,763	60,763	68,838	52,688	40,575
Net Cash from sales		(60,763)	6,450	16,788	(8,150)	34,238	10,488	10,488	2,413	28,063	21,175
EXPENSES											
Commission-Manager	-	3,563	3,800	3,563	4,750	3,563	3,563	3,563	4,038	3,088	2,375
Wages - Office (1/2)	-	-	-	953	953	953	953	953	953	953	953
Wages - Other (2 X 1/2)	-	-	-	935	935	935	935	935	935	935	935
License/Dues	495	-	75	-	50	-	-	-	-	-	-
Site Rental	-	750	800	750	1,000	750	750	750	850	650	500
Lease - Equipment	-	-	-	-	-	-	-	-	-	-	-
Utilities	-	-	-	-	-	-	-	-	-	-	-
Travel	-	-	-	-	-	-	-	-	-	-	-
Marketing	500	250	150	150	250	250	250	250	250	250	250
Telephone/Office	-	-	-	-	-	-	-	-	-	-	-
Insurance	-	-	-	-	-	-	-	-	-	-	-
Maintenance	-	-	-	-	-	-	-	-	-	-	-
Total Cash Out	995	4,563	4,825	6,351	7,938	6,451	6,451	6,451	7,026	5,876	5,013
Cash flow (deficit)	(995)	(65,325)	1,625	10,437	(16,088)	27,787	4,037	4,037	(4,613)	22,187	16,162
Opening Cash	17,050	16,055	(49,270)	(47,645)	(37,208)	(53,296)	(25,509)	(21,472)	(17,435)	(22,048)	139
Closing Cash (LOC)	16,055	(49,270)	(47,645)	(37,208)	(53,296)	(25,509)	(21,472)	(17,435)	(22,048)	139	16,301

Green Deliveries	Mon-1	Mon-2	Mon-3	Mon-4	Mon-5	Mon-6	Mon-7	Mon-8	Mon-9	Mon-10	Mon-11
REVENUES											
Member shares	-	1,550	1,550	3,100	-	-	1,550	-	-	-	-
Delivery Members	14	15	16	18	18	18	19	19	19	19	19
fbm produced	120,000	130,000	140,000	160,000	140,000	150,000	140,000	140,000	100,000	80,000	80,000
Average price per mfbm	950	950	950	950	950	950	950	950	950	950	950
Total Sales	114,000	123,500	133,000	152,000	133,000	142,500	133,000	133,000	95,000	76,000	76,000
Cash Receipts	57,000	115,550	125,050	136,100	152,000	133,000	144,050	133,000	133,000	95,000	76,000
COST OF SALES											
Paid for deliveries (85%)	96,900	104,975	113,050	129,200	113,050	121,125	113,050	113,050	80,750	64,600	64,600
Wrapping Materials	300	300	300	300	300	300	300	300	300	300	300
TOTAL COGS	97,200	105,275	113,350	129,500	113,350	121,425	113,350	113,350	81,050	64,900	64,900
Net Cash from sales	(40,200)	10,275	11,700	6,600	38,650	11,575	30,700	19,650	51,950	30,100	11,100
EXPENSES											
Salaried Manager (1)	4,000	4,000	4,000	4,000	4,000	4,000	4,000	4,000	4,000	4,000	4,000
Wages - Office (1/2-1)	953	953	953	1,916	1,916	1,916	1,916	1,916	1,916	1,916	1,916
Wages - (4X1/2)	5,163	5,163	5,163	5,163	5,163	5,163	5,163	5,163	5,163	5,163	5,163
License/Dues/	495	75	-	50	-	-	-	-	-	-	-
Site Rental	1,200	1,300	1,400	1,600	1,400	1,500	1,400	1,400	1,000	800	800
Lease - Equipment	-	-	-	-	-	-	-	-	-	-	-
Utilities	-	-	-	-	-	-	-	-	-	-	-
Travel	-	-	-	-	-	-	-	-	-	-	-
Marketing	250	250	250	250	250	250	250	250	250	250	250
Telephone/Office	-	-	-	-	-	-	-	-	-	-	-
Insurance	-	-	-	-	-	-	-	-	-	-	-
Maintenance	-	-	-	-	-	-	-	-	-	-	-
Total Cash Out	12,061	11,741	11,766	12,979	12,729	12,829	12,729	12,729	12,329	12,129	12,129
Cash flow (deficit)	(52,261)	(1,466)	(66)	(6,379)	25,921	(1,254)	17,971	6,921	39,621	17,971	(1,029)
Opening Cash	11,850	(40,411)	(41,877)	(41,943)	(48,322)	(22,401)	(23,655)	(5,684)	1,237	40,858	58,829
Closing Cash (LOC)	(40,411)	(41,877)	(41,943)	(48,322)	(22,401)	(23,655)	(5,684)	1,237	40,858	58,829	57,800

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