



**Kaslo and District
Community Forest
Society**

ORGANIZATIONAL ADMINISTRATION AND BUSINESS PLAN

**Submitted as part of the application requirements for a
Probationary Community Forest Agreement**

Prepared for:

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ORGANIZATIONAL ADMINISTRATION AND BUSINESS PLAN

1.0 Executive Summary

Incorporated in May 1996, the Kaslo and District Community Forest Society (Society) is a non-profit society that currently manages a non-replaceable forest licence (FL A54215) in the Kootenay Lake Forest District. The allowable annual cut for this Forest Licence is 10,000 cubic metres per year. The Society is currently in Year 5 of its second five-year cut control period.

The KDCFS was created to manage the Kaslo & District Community Forest on behalf of the people of Kaslo and Area D. The KDCFS is governed by a nine-member volunteer board of directors. The mandate of the KDCFS is to manage local forests in the interests of the community, and to manage for the protection of identified forest values in a manner that is consistent with the government's forest stewardship objectives.

Since its inception, the KDCFS has lobbied the government to provide it with an opportunity to convert its existing tenure to a long-term tenure. In August 2004, the government responded with enabling legislation and an invitation for KDCFS to apply for a probationary community forest agreement. In January 2006, the government provided the essential ingredients for the KDCFS to prepare an application: it specified the AAC for the new licence area (an AAC of up to 25,000 m³), and it provided the KDCFS with the application particulars. Since that time, the Society has been working diligently towards completing the application requirements. This Business Plan forms part of the PCFA application requirements.

The KDCFS is presently in good financial shape (Appendix I – 2005 Financial Statements). At this time, the Society plans to use its existing and projected revenues to finance the business. KDCFS has existing cash reserves, and a planned income stream at its disposal to operate the business, and does not expect to seek financing during transition to the new licence.

The KDCFS intends to market its logs to local mills, including value added mills. The Society does not intend to mill its own timber, open up a log sort yard, or export raw logs during the term of this PCFA.

In addition to providing the exclusive right to harvest timber, a PCFA may give its holder the right to harvest, manage, and charge fees for botanical forest products and other prescribed products. The Society is not applying for the right to harvest, manage and charge fees for botanical forest products and other prescribed products at this time.

In terms of a market strategy, we recognize that KDCFS are essentially market loggers, and as such, the KDCFS will respond to market signals, to maximize

benefits over the medium to long term. KDCFS intends to develop sufficient standing timber inventory (approved cutting permits) to be able to respond to and take advantage of fluctuating markets.

Since November 2004, the KDCFS has been able to disburse over \$677,000 in grants to over 65 non-profit organizations within Kaslo and Area D, and intends to continue with disbursements of profits to the community. The KDCFS' current Board-approved disbursement policy is included in Appendix II. Changes to this policy are anticipated over time, and will be subject to Board approval.

At an AAC of 25,000 m³, each year, the new licence is estimated to generate 81.7 person years of direct, indirect and induced employment in the province, generating \$3.1 million in employment income and \$0.5 million in government revenues.

Community members will have an opportunity to participate in decision-making by becoming members of the Society, participating on committees of the Society, including a planned new residents' advisory committee, and by having an opportunity to stand for election on the Board. The board will be accessible and accountable to the community, and will provide opportunities for continued public involvement, including holding regular Board meetings which are open to the public, posting minutes and monthly financial statements on the Society's web site, publishing quarterly updates on Society news and current/planned operations. The public may contact the Society at any time during regular business hours or via e-mail or its web-site.

In addition, the community will have an opportunity to comment on proposed development through the Forest Stewardship Planning process. Further, the Society will provide an opportunity for the public and affected stakeholders to comment on proposed roads and cutblocks that are planned for development. This will be done prior to any development proceeding to the cutting permit stage.

2.0 Mission Statement

The Kaslo and District Community Forest Society (KDCFS) will manage the diversity of values of the Community Forest in an ecologically responsible and fiscally accountable manner on behalf of the people of Kaslo and Area D.

3.0 Management – Governance Structure

The Society plans to continue with its current governance structure for the management of the Probationary Community Forest Agreement. Its current governance structure is defined in the KDCFS bylaws.

The Society is currently governed by a nine-member volunteer board of directors. Seven directors are elected by the Society membership. Two directors are appointed: one by the council of the Village of Kaslo, and the other by the Regional District of Central Kootenay board of directors.

Directors elected by the Society membership are elected at the annual general meeting, to two-year terms. At each annual general meeting, a minimum of three directorships stands for election. The officers (president, vice president, secretary and treasurer) are elected, by the directors, at the first meeting of the directors following the annual general meeting.

An election committee is established annually to recruit applicants and receive applications from the membership to stand for election to the Board of Directors. The elections committee is required to organize and conduct an all candidates meeting prior to the AGM. The committee is charged with striving to balance community perspectives and gender and ensuring that the required expertise and skills are represented on the board.

If a successor is not elected, the person previously elected or appointed may continue to hold office. The directors may at any time, and from time to time appoint a member as a director to fill a vacancy in the directors.

At the first meeting after each AGM, an executive will be elected and members of the board will begin preparing a strategic plan for the year, which will specify monitoring, auditing, and reporting requirements. Decision-making and conflict resolution will be consistent with KDCFS' bylaws, as summarized in Section 3.1.

The board will be accessible and accountable to the community, and will provide opportunities for continued public involvement, as described in Section 5.0 of this business plan.

3.1 Current Organizational Administration

The Board is responsible for policy and making all strategic decisions for KDCFS, usually based upon recommendations from the rest of the organization. When consensus cannot be reached, decisions made on questions arising at a meeting of the directors and committees of directors are determined by majority vote. The chair has only one vote on any question before the board. In the case of a tie vote, the chair does not have a second or casting vote, and a motion or resolution whose vote results in a tie does not pass.

Over the term of the present license, various committees have been struck and disbanded. The Operations Committee is the only committee which has been in place and active for the duration. Committees have typically been chaired by a Board member and the other members have been invited members of the public and/or other Board members.

The Woodlands Manager & Business Manager responsibilities have been executed in a variety of ways, including: board member(s) only, employee(s), and contract companies.

Currently, the role of woodlands manager is filled by a contract company. The business management is currently conducted by Board members in consultation with the Woodlands Manager and Operations Committee. Bookkeeping and general office administration is carried out by a part-time employee. Development work (block and road layout) is contracted out. Various professionals (hydrologists, geotechnical engineers, archaeologists, biologists, etc.) are hired on contract, as required, to carry out professional assessments (eg. drainage mapping, terrain stability field assessments, archaeological impact assessments, wildlife habitat assessments, etc.)

The Woodlands Manager currently provides the Board with a monthly report on KDCFS current and planned operations, emerging issues, and specific items requiring Board direction or approval. Items requiring Board approval that require further discussion are tabled to Committee either for a decision or a recommendation for Board approval.

Financial statements are prepared annually for the fiscal year (currently Jan 1- Dec 31st). The 2005 financial statements are included in Appendix 1.

The above organization has proven to be very successful in managing the licence at 10,000 m³ annually. With the benefit and example of past experience, the Board believes that its organizational model has the flexibility to respond well to an expanded opportunity. It has already been proven that the roles of the different parts of the organization can be adjusted on a situational/as needed basis.

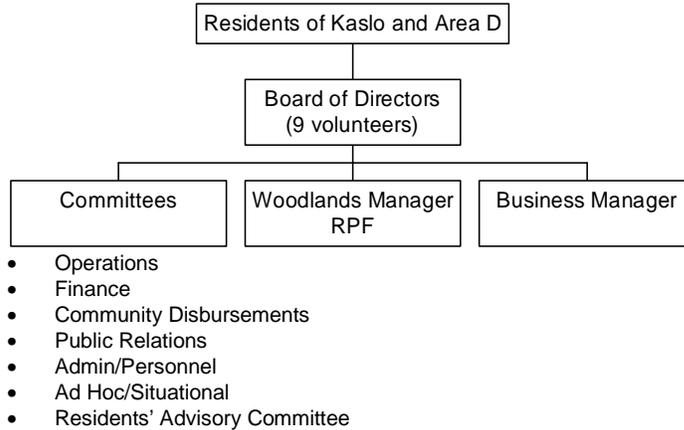
3.2 Proposed Organizational Administration

With a 25,000 m³ AAC Probationary Community Forest Agreement, the Board is confident that the current organization can continue to successfully manage the increased volume. With the flexibility of the past retained, adjustments can be made to retain the same level of success.

It is thought likely, however, that the role of committees reporting to the Board may need to be ramped up to ensure that the Board is sufficiently relieved of task items to be free to manage the larger PCFA at the policy & leadership level. A recent suggestion by the membership that an advisory committee, comprised of area residents, be established will be implemented shortly. The Board will review the governance model in future to ensure that it continues to serve the Society well.

The following organizational chart shows how the KDCFS will be organized:

Figure 1. KDCFS Organization Chart



4.0 Human Resources

The following table outlines the human resources that we anticipate will be required to manage this PCFA.

Table 1. Human Resources

Job Category	Proposed Role(s)	Minimum Qualifications
Woodlands Management	Plan and oversee woodlands operations, including: <ul style="list-style-type: none"> • development and forest stewardship planning, • cutting permit and road permit applications, • logging and roadbuilding supervision • post-harvest assessments and reporting • silviculture (planting, brushing, surveys) administration, including annual reporting • securing specialized services, as required 	<ul style="list-style-type: none"> • RPF or forest technician under RPF supervision • RPF • RFT or forest technician under RPF supervision • RFT or forest technician under RPF supervision • RFT or forest technician under RPF supervision • RPF, RFT or forest technician
Business Management	Business Management – <ul style="list-style-type: none"> • Log marketing • Oversee accounting, comptrolling, and financial budgetting 	<ul style="list-style-type: none"> • Qualified individual with experience in business management and log sales
Bookkeeper	General office administration, bill payments, banking, bookkeeping, secretarial	<ul style="list-style-type: none"> • Qualified individual with experience in bookkeeping

The woodlands manager's role will be carried out under contract or by hired staff consisting of a team of qualified individuals. All activities will be coordinated by a Registered Professional Forester (RPF), who will be responsible for all aspects of the woodlands operations. Tasks such as logging and roadbuilding supervision, post-harvest assessments, and silviculture administration may be completed by the RPF, an RFT, or by qualified forest technicians under the supervision of an RPF.

Given the short field season, and the increased planning required in the first year or two of operations, it is anticipated that the tasks/jobs listed in Table 1 will require at least 1 part-time RPF and one to two part-time technicians (equivalent to 1 full-time equivalent). Based on existing costs, and anticipated economies of scale, we have budgetted the cost of woodlands management for the new PCFA to be \$5/m3.

The business management role is currently being completed by volunteer Board members who have experience in this area. The board is currently investigating its options regarding hiring personnel who will be responsible for part or all of the business management.

Bookkeeping will continue to be a part-time position. The associated costs are consistent with current costs.

The Society has a local hire policy, which gives preference to local contractors during project tendering. The local hire policy states that contracts must be awarded to the lowest bidder, if local, or to local contractors who come within 5% of the lowest bid price, if the lowest bidder is not local.

5.0 Community Participation

Community members will have an opportunity to participate in decision-making by becoming members of the Society, participating on committees of the Society, and by having an opportunity to stand for election on the Board. In addition, the community will have an opportunity to comment on proposed development through the Forest Stewardship Planning process. The Society also intends to provide an opportunity for the public and affected stakeholders to comment on proposed roads and cutblocks that are planned for development. This will be done prior to any development proceeding to the cutting permit stage.

The board will be accessible and accountable to the community, and will provide opportunities for continued public involvement in the following ways:

- The Board will continue to hold regularly scheduled (at least monthly) Board meetings which are open to the public and media. Currently, the Society's monthly Board meetings are being televised on Kaslo Cable.
- Approved minutes of each Board meeting will be posted on the bulletin board outside the Society's office, and will also be made available on the Society's web site www.kaslocommunityforest.org.
- The public will be invited to participate in an advisory capacity on committees of the Society, including a new residents' advisory committee that will be established shortly.
- Members will be encouraged to attend the Annual General Meeting.
- The most recent annual financial statements and completed monthly financial reports will be posted on the web site.
- Quarterly updates will be placed in the local newspaper announcing Society news and current/planned operations.
- Individuals may call or drop in during regular office hours. Current office hours are Wednesdays from 9 am to 4 pm.
- At any time, the public may contact the Society via its Website, or e-mail at kcfs@netidea.com.
- The public will be given an opportunity to review and comment on proposed development during the Forest Stewardship Plan referral process. In addition, the public and affected stakeholders (including licenced users and First Nations) will be given an opportunity to review and comment on proposed cutblocks and roads prior to cutting permit application.

Each year, the KDCFS has sponsored a Winter in the Forest Festival, a family fun event featuring sleigh rides, loggersports, snowshoe races, and nature hikes. The KDCFS intends to continue to sponsor this event in future.

6.0 Product/Service Description

KDCFS' intended product will be timber (sawlogs, veneer logs, poles, house logs, timber frame logs), which will be sold to local mills at the highest bid price, taking into consideration hauling costs and conversion factors. Minor products such as shakes, posts and rails, and firewood will also be sold. At this point, there is no market for pulp. Celgar in Castlegar is no longer accepting pulp logs; their wood room was shut down several years ago. The potential for the marketing of pulp will be revisited in the future should market conditions change.

As well as providing the exclusive right to harvest timber, a PCFA may include rights to harvest, manage and charge fees for botanical forest products and other prescribed products. There are no plans at present for KDCFS to apply for the right to harvest, manage and charge fees for botanical forest products and other

prescribed products, and therefore, these products are not considered in this business plan.

Factors that will contribute to the success of the operation include the fact that:

- the Society has approximately 10 years of experience in managing a forest licence with an AAC of 10,000 m³,
- the Society has demonstrated that it is capable of meeting its legal obligations under existing forest legislation,
- the Society is financially successful and has returned significant benefits to the local community and the province.

6.1 Operations and Processes

6.1.1 Planning

In order to produce the timber products listed above, the KDCFS will complete forest stewardship planning to identify the timber that is available for harvest, followed by reconnaissance, layout, and traversing of proposed roads and cutblocks and completion of all necessary assessments (eg. visual impact assessments, archaeological impact assessments, terrain stability field assessments, hydrological assessments, etc.). At this time, it is uncertain whether a full timber appraisal will be required, because the current interior appraisal manual provides for PCFA holders to use tabular stumpage rates, but this provision may only apply until the end of 2006. Should the tabular method not be available after 2006, the area will need to be cruised, and a full appraisal will need to be completed and submitted to obtain a cutting permit. During the planning phase, the public, First Nations and affected stakeholders will be given an opportunity to review and comment on the planned roads and cutblocks.

6.1.2 Logging and Hauling

Once a cutting permit is obtained, and a block is scheduled for harvest, the block will be tendered and awarded to the lowest bidder (subject to the local hire policy). Logs will be marketed locally and sold to the highest bidder, taking into account hauling costs/conversion factors. During the logging phase, logs will be sorted and manufactured at the landing, and distributed to the mills who have purchased the timber.

Logs will be hauled by local truckers to the mills. In the past, the hauling phase has at times been included in the logging contract, and at other times, been separate. In either case, hauling will be the responsibility of the logging contractor to coordinate.

6.1.3 Road Construction, Maintenance and Deactivation

Roadbuilding will be contracted out to the lowest bidder (subject to the local hire policy). Roads will be monitored during spring freshet and during operational use, and routine maintenance will occur as and when required. Roads scheduled for deactivation will be deactivated as scheduled. All maintenance and deactivation is contracted out to local operators.

6.1.4 Site Preparation and Reforestation

All areas that are harvested will be assessed post-harvest for fire hazard and plantability, and any necessary site preparation/hazard abatement treatments will be contracted out and completed prior to planting. Site preparation treatments may include piling and burning, broadcast burning, mechanical site preparation, or no treatment.

All areas that are harvested will be reforested to the standards identified in the Forest Stewardship Plan and summarized in the Site Plan for the area. Seedlings will be ordered from the local nursery (Pacific Regeneration Technologies-Harrop) in the early fall, and given lag times for spring stock, will be ordered 1.5 years before scheduled spring planting and 10 months before summer planting. Each year, the tree planting will be tendered in the fall, and awarded to the lowest bidder (subject to local hire policy), with actual planting occurring in the spring, and at high elevations, in the summer.

All harvested openings will be monitored at regular intervals to assess regeneration performance and ensure that the District stocking standards are achieved and maintained over time. Brushing treatments may be required over the life of the plantation to achieve free-growing, and these will be carried out as required. Free-growing assessments and declarations will be completed during the free-growing window.

6.2 Suppliers and Inputs

The local and greater area currently supports an adequate number of qualified, available logging, hauling, roadbuilding, site preparation, and planting/silviculture contractors with suitable equipment to cover the terrain and conditions of the PCFA operating area.

KDCFS has a secure supplier of seedlings to meet current and future needs. Seedlings will be purchased from Pacific Regeneration Technologies (PRT-Harrop), a local, professional nursery that supplies high-quality seedlings at a good price.

6.3 Anticipated Harvest Over the Next 5 Years

Under its existing licence, the KDCFS begins a new 5-year cut control period starting in January 2007. Given existing cut control information and projected harvesting for the remainder of 2006, we anticipate that there will be approximately 10,000 m³ of overcut carried forward from the current cut control period (2002-2006) into the next cut control period (2007-2011) of the existing licence. The MOFR has indicated that any overcut from the existing licence will not be rolled over into the new licence, but rather, will be administered under the existing licence. Therefore, we have not adjusted the available AAC under the PCFA to account for any overcuts under the existing forest licence.

At an allowable annual cut of 25,000 m³, the 5-year cut for the new licence will be 125,000 m³. The volumes planned for harvest in 2007-2011 (133,000 m³) represent the total volume scaled. Not all grades crossing the scale contribute to the cut control volume. The cut control volume is currently based on the total billed volumes in Grades 1&2 (sawlogs), and 4 (lumber reject), with minor reductions for the deadwood component. Based on existing cut control records, we anticipate that cut control volumes will amount to about 94% of the total volume scaled. Our harvest projections account for this, as follows:

Table 2. Projected Harvest Volume for 2007-2011

	A Total harvest volume to be scaled during period (m ³)	B (A*94%) Total cut control volume for period (m ³)	C 5-Year Cut	D (B/C) % of 5-Year Cut control
Total harvest volume 2007-2011	133,000	125,000	125,000	100%

The PCFA area offered supports a mix of tree species. According to the harvest rate analysis for the PCFA area, the mature species composition on the timber harvesting land base consists of approximately 50% Douglas-fir, 14% larch, 13% balsam, 10% spruce, 9% hemlock, 2% cedar and 2% lodgepole pine.

In order to obtain a better estimate of anticipated product value (log species composition), an additional review was conducted by KDCFS planners to identify potential roadbuilding and harvest opportunities in the near term (over the next 5 years). The review identified opportunities in the Lost Ledge and Keen Creek drainages. We are therefore basing our estimates of species composition (and hence product value) on the average species composition identified in the potential cutblocks within each of the drainage areas. Given that we have 23,000 m³ of standing timber inventory that is planned for harvest in Year 1, we

have assumed that we will be harvesting volumes in Lost Ledge in Years 2 to 4, and Keen Creek in Year 5.

The following species composition has been assumed for the purposes of this business plan:

Table 3. Anticipated Species Composition* and Harvest Volume Over the Next Five Years

Year	1 (2007) CP 10 Bks 15,16	1 (2007) CP 13 Bk 36 & R/W	2 (2008)	3 (2009)	4 (2010)	5 (2011)
Species						
Douglas-fir	26%	27%	22%	22%	22%	41%
Larch	3%		17%	17%	17%	13%
Western hemlock	36%	21%	14%	14%	14%	23%
Balsam		8%	13%	13%	13%	12%
Cedar	28%	28%	11%	11%	11%	7%
Spruce	5%	14%	15%	15%	15%	3%
Lodgepole pine		1%	8%	8%	8%	1%
White pine	2%	1%				
Total Volume (m3)	7,124	15,698	25,000	25,000	25,000	35,000

* Species composition for 2007 is based on the cruise compilation and road right-of-way volumes. Species composition for 2008-2011 is based on preliminary cutblock planning using TRIM and forest cover inventory maps and orthophotos.

6.4 Log Prices

Given the uncertainty surrounding future log prices, for the purposes of this Business Plan, we have assumed that log prices will remain at current levels. The following log prices have been used in our financial analysis for each of the next 5 years:

Table 4. Projected Log Prices for 2007-2011

Species	Value (\$/m3)
Douglas-fir	80
Hemlock	46
Larch	75
Cedar	100
Spruce	75
Balsam	60
Lodgepole pine	65

6.5 Logging and Roadbuilding Costs

While actual plans for harvesting and roadbuilding are to be solidified after the forest stewardship plan is approved, for the purposes of forecasting costs for this business plan, KDCFS planners have identified potential road access and harvest systems anticipated over the next 5 years. These very preliminary plans have been used to derive cost estimates for the projected financial statements included in this Business Plan. Average roadbuilding/reconstruction costs to access the identified cutblocks within each drainage were used to derive road cost estimates. The following table outlines the assumptions used to derive roadbuilding and logging costs.

Table 5. Roadbuilding and Logging Cost Assumptions

Year(s)	Data source	Logging Systems	Logging Cost Assumed	Roadbuilding/ Reconstruction Costs Assumed
1 (2007)	Existing Cutting Permits	34% cable, 66% ground-based	Cable - \$32/m ³ Ground- \$21/m ³	\$200,000
2-4 (2008-2010)	TRIM, FC Maps, Orthophotos	60% cable, 40% ground-based	Cable - \$32/m ³ Ground- \$22/m ³	\$84,250/year \$35,385/km \$3.37/m ³
5 (2011)	TRIM, FC Maps, Orthophotos	80% cable, 20% ground-based	Cable - \$32/m ³ Ground - \$22/m ³	\$439,642/year \$58,110/km \$12.56/m ³

6.6 Development Planning Costs

By late 2007, KDCFS will have used up its existing Standing Timber Inventory (STI, or timber under cutting permit). KDCFS therefore plans to develop an additional 50,000 m³, or 2 years of STI in 2007, to be scheduled for logging in 2008 and 2009. Starting in 2008, the KDCFS will make an effort to maintain a running total of 2 years of STI by adding 25,000 m³ of STI annually, to be harvested in subsequent years.

In this business plan, we have allocated \$2/m³ for cutting permit development (road and block reconnaissance, layout, traversing, cruising, and cutting permit application), not including forest stewardship planning, or specialized assessments. In addition, we have budgetted for approximately \$155,000 in Forest Stewardship Planning and specialized assessments over the next 5 years (\$50,000 in 2007, \$30,000 in 2008, and \$25,000 thereafter). We are anticipating that costs will be higher in the first two years due to the additional planning and development work anticipated in the initial years of operation.

6.7 Inflation

We have not accounted for the impact of inflation, either on log prices or log costs. We have assumed that any inflationary pressures, if they occur, will impact both log prices and log costs equally, and therefore we have not accounted for inflation in this analysis.

7.0 Industry/Market Strategy and Goals

KDCFS has been marketing all of the tree species and most of the products listed above over the last 10 years under our existing non-replaceable forest licence. Our logs will be marketed to local mills, including value added mills, at the highest bid price, taking into account hauling costs and conversion factors.

Currently, local mills are accepting all of our products. We recognize that markets are subject to change without notice, as we have been operating in this environment for some time. The table below identifies the products that each mill is currently accepting, or has accepted in the past.

Table 6. Anticipated Products Markets

Local Mill	Products Currently Accepted	Products Accepted in the Past
Meadow Creek Cedar Ltd., Meadow Creek, BC	Hw and Fd sawlogs	Cw sawlogs
Springer Creek Forest Products, Slocan, BC	Hw, Cw, Pl, Fd, Lw, Se	
Atco Lumber, Fruitvale, BC	Fd and Lw peelers	
Pope and Talbot Ltd., Castlegar, BC	All species, including small logs	
Bell Pole Ltd., Nakusp, BC	Cw poles	
Wynndel Box and Lumber Ltd., Wynndel, BC	Pl and Se sawlogs	
Porcupine Wood Products Ltd., Salmo, BC	Cw sawlogs	
Kalesnikoff Lumber Co. Ltd., Thrusms, BC	None	Fd, Lw, Pw sawlogs
Remco Cedar Shake and Shingle, Cooper Creek, BC	Cw shakes	
Box Lake Sawmill, Nakusp, BC	Cw shakes, Cw post and rails	
Hamill Creek Holdings	Fd and Lw building logs	
Boards by George	Douglas-fir large dry sawlogs	

Hw – western hemlock
Fd – Douglas-fir
Cw- western red-cedar

Lw – western larch
Pw – white pine
Pl – lodgepole pine

Bl – balsam
S - spruce

In terms of a market strategy, we recognize that KDCFS are essentially market loggers, and as such, we will respond to market signals, to maximize benefits over the medium to long term. KDCFS intends to develop sufficient standing timber inventory (approved cutting permits) to be able to respond to and take advantage of fluctuating markets. In 2007, the Society will have approximately 1 year (23,000 m³) of STI remaining under existing approved cutting permits. For the purposes of this business plan, we have budgeted for the Society to identify an additional 2 years of STI by mid-late 2007, and 1 year of STI thereafter (to maintain a running average of 2 years of STI).

In the past, Meadow Creek Cedar and Springer Creek Forest Products, the closest mills to our operating area, have purchased a large proportion of our logs. This has kept local mill workers employed.

In scheduling the harvest, KDCFS will consider existing market conditions, and give priority to harvesting cutting permits containing species and products that maximize net revenue over a 5 year period. KDCFS will use the flexibility offered by the government in managing its AAC. That is, volumes harvested in any given year will be related to market conditions, so that more volume will be harvested during good markets, and less during poor markets.

The Society will work cooperatively with existing value-added manufacturers by providing them an opportunity to bid on specialty products to support their operations.

The Society has no intentions of milling its own timber, opening up a log sort yard, or exporting raw logs over the next 5 years. In 2004, KDCFS conducted a log sort yard feasibility study for the Kaslo area. The study concluded that such a project was not feasible. In early 2006, our closest log sort yard (Kootenay Custom Log Sort in Thrums, BC) permanently shut down. Given the results of our internal review, and the difficulties experienced by larger local companies, we are not proposing such a venture in the current business climate. This may be revisited in the future should conditions change.

Direct and indirect employment that will be generated within the Kootenay Lake Timber Supply Area and within the province from the PCFA is listed in Table 7 below. These numbers were derived using the applicable averages identified in the socio-economic analysis completed as part of the last Kootenay Lake Timber Supply Review (2001).

8.0 Major Risks and Uncertainties

8.1 Market Risks

Future revenue levels for the Community Forest are subject to changing market prices for the logs harvested. Local sawlog price fluctuations are typically caused by a number of factors that can be positive or negative. Due to the complexity of these factors, a reliable forecast is difficult if not impossible.

8.1.1 Demand Side

On the demand side, North American lumber markets usually have a direct effect on local sawlog markets. Lumber, in turn, is strongly influenced by its main end-use market: U.S. housing construction and renovation. After several years of strong growth, and as mortgage rates have moved up, this market is projected to stagnate or even decline in the coming years.

The impact on Canadian lumber producers (and log buyers) depends on two things:

1. the exchange rate between the Canadian and US Dollars and
2. the outcome of the pending Softwood Lumber Agreement.

Since Canadian log buyers export most of their lumber to the US, they receive U.S. Dollars for their product. A stronger Canadian Dollar means less money to pay to domestic log suppliers.

Depending on the final outcome, the pending conclusion of a new Softwood Lumber Agreement may have positive and negative implications for local sawmills. The expected return of some of the duties on deposit will ensure their survival, enables them to stay competitive, and hopefully to pay better prices for logs. On the other hand, lumber export taxes and volume quotas increase conversion costs and limit output growth. This basically caps demand and prices for logs as well.

8.1.2 Supply Side

The major uncertainty on the supply side is the effect of the mountain pine beetle (*Dendroctonus ponderosae*) salvage volumes currently flooding the B.C. Interior log markets. Local prices for lodgepole pine have deteriorated markedly over the last few years and, in their wake, all whitewood prices. It is uncertain how long this will continue but it may be followed by a significant scarcity of whitewood logs and thus higher prices once the pine salvage has run its course.

With its diverse log profile, the Community Forest may be well positioned to take advantage of this situation.

Overall, a sustained increase in whitewood log prices in the near term seems very unlikely. For certain species like cedar or perhaps also Douglas-fir/larch, however, there may be potential for price stability or even increases. Medium to long term, whitewood logs may become scarce with prices increasing again.

8.2 Biological Risks

8.2.1 Log Quality

Log quality in the older age classes within the PCFA operating area is somewhat uncertain. If log quality is lower than anticipated in these age classes, it will have an impact on log prices in the near term, and the Allowable Annual Cut in the long term.

The most recent timber inventory for the lands within the PCFA was conducted in 1969. The inventory file has been projected to 2005 to account for changes in ownership, forest growth, and denudation through harvesting or wildfire. The District is currently planning to conduct a reinventory of the entire Kootenay Lake Timber Supply Area (TSA) starting in 2006, with completion scheduled within the next 4-5 years. The Chief Forester, in his January 2002 Rationale for AAC Determination for the Kootenay Lake Timber Supply Area (TSA), supported completion of this project prior to the next AAC determination for the TSA.

A reinventory will decrease the level of risk associated with log quality. In the interim, should log quality become an issue, an attempt will be made to schedule the harvest of these low quality logs with higher value wood.

8.2.2 Forest Health

Currently, mountain pine beetle presents by far the greatest forest health risk in the District. The proposed PCFA area contains a relatively small proportion (2%) of mature lodgepole pine stands, which is the beetle's main host. Therefore, the risk to the PCFA's standing timber inventory due to mountain pine beetle is not significant.

Other beetles, including Douglas-fir beetle, have historically been of concern in the District, and this beetle has been noted in small outbreaks within KDCFS' existing operating area. However, these outbreaks have been relatively minor in nature, and are not anticipated to pose a major threat in the next 5 years.

8.3 Operational Risks

8.3.1 Stumpage Rates

Stumpage rates (the fees paid to the government when Crown timber is harvested) are tied to market prices. The stumpage rates assumed in this business plan reflect current average Interior Appraisal Manual table rates for Community Forest Agreement Areas (\$2.50/m³). These rates are only effective until December 31, 2006. Beyond that, we have no information indicating whether these table rates will be in effect. It is possible that stumpage rates for CFAs will revert to the full appraisal method. If that occurs, and log prices remain stable, we anticipate that stumpage rates are likely be less than \$2.50/m³, based on KDCFS' current stumpage rates, the majority of which are currently at \$0.25/m³. If markets improve, stumpage rates will go up, but so will log prices, thereby offsetting the effect of the stumpage increase.

8.3.2 Operating Areas

The Kootenay Lake Forest District is currently undergoing a District-wide operating area review, which is expected to result in a reallocation of operating areas amongst existing forest licensees within the Timber Supply Area (TSA). Although not expected to have an impact on the operating area of this PCFA, it may impact this licence in the next 5 years, while the licence is still formally part of the TSA. If the PCFA is converted to a long term licence (i.e. once the probationary period is over), it will be removed from the TSA, and this uncertainty will no longer be an issue.

8.3.3 Logging, Hauling and Roadbuilding Costs

For the purposes of this business plan, the logging and roadbuilding costs in Year 1 are based on existing cutting permit information. Logging and roadbuilding costs for Year 1 are expected to be relatively accurate in relation to our financial analysis. For years 2-5, we have used existing TRIM (contour mapping) and Forest Cover data as well as available orthophotos of the PCFA area to identify future potential roads and cutblocks.

In Years 2-4, we have assumed that we will be operating largely in the Lost Ledge drainage area. In Year 5, we anticipate that operations will be located largely in the Keen Creek drainage. Given the moderate terrain in Lost Ledge, we anticipate that actual road costs will be comparable to our estimates. The Keen Creek drainage has more difficult terrain, and while we have budgeted for that, we will not be able to derive a more accurate estimate without additional field work. Should roadbuilding be more difficult than anticipated, we may need

to begin development within the Keen Creek drainage earlier than anticipated to average out road building costs over the period, or we may combine this development with opportunities elsewhere in our operating area to average out these costs over time.

Fuel costs have become a major cost driver, and we have accounted for this in our assumptions. Fuel costs affect all aspects of our operation, particularly logging, hauling and roadbuilding, but also the cost of seedling production and transportation for forest workers. Fuel costs are currently at record high levels and we expect them to come down in future. However, for the purposes of this business plan, we have conservatively assumed that on average, fuel prices will remain at current levels over the next 5 years.

8.3.4 Unexpected Losses

This category includes catastrophic events such as wildfire, landslides, impacts on domestic water supply, and plantation failures.

The KDCFS will reduce its risk during the fire season by adhering to the Wildfire Act and Regulation, including slash hazard abatement, and curtailing or shutting down operations during periods of high fire danger. The Society will maintain a fire standby schedule during the fire season, to ensure that a Society contact is always available in the event of a fire. As part of its integrated management strategy, the Society will consider fire security/fire interface during access planning. In addition, the Society will actively participate in any fire interface planning initiatives that are headed by the Village of Kaslo or the Regional District.

None of the operating areas within the PCFA area are known to contain roads with a high risk of failure, although at this point, we do not have a full inventory of roads and their existing condition. Many of the roads previously held by Slocan Forest Products/Canfor were deactivated, and are currently stable. A more thorough review of existing roads within the PCFA operating area will need to be conducted to determine the actual risk. Our cursory review has not identified any major areas of risk.

The KDCFS has been operating in domestic watersheds, and is currently setting aside \$1.50/m³ harvested into a Water Contingency Fund to cover the costs associated with any water-related incident caused by the KDCFS. Currently, this fund contains approximately \$45,000. It is anticipated to grow to \$95,000 by the end of 2007. For the purposes of this business plan, the KDCFS has committed to continuing to setting aside \$1.50 per m³ harvested in 2007. Prior to the end of 2007, the amount in the water contingency fund will be reviewed by the Board of the day to determine if the amount held in the fund is sufficient to deal with potential water-related events.

Openings harvested by the KDCFS that carry silviculture obligations remain a silvicultural liability for KDCFS until the areas are declared free-growing. The Society has been setting aside \$7/m³ harvested to cover future silviculture costs, and plans to continue to do so under the new PCFA agreement. So far, this amount has been more than adequate to cover existing silviculture obligations, including unforeseen losses. This fund currently contains \$295,000, and given anticipated deposits and withdrawals for the remainder of 2006, is expected to contain about the same amount on January 2007. It should be noted that on average, the silviculture fund is expected to grow over time. In 2006, this will not be the case because the area treated in 2006 is larger than average, given above-average harvest rates in 2005.

Some community members have identified climate change as an area of concern, citing potential impacts including future shortages of water, increases in insurance costs (due to an increase in disaster insurance claims), increases in susceptibility to mountain pine beetle, wildfires and plantation failures. While we recognize climate change as a threat to BC's forests, this Business Plan covers the next 5 year period, during which we do not anticipate experiencing large-scale impacts as a result of climate change. Having said this, we have considered the risks due to mountain pine beetle, wildfires, plantation failures, and domestic water supply under this and previous sections, and our projected financial statements indicate that any increases in insurance premiums should be manageable.

Experts currently identify climate change as a contributor to the current mountain pine beetle epidemic, and increases in other forest pests including needle blights in northern BC. They also indicate that the combinations of hosts and their suite of pests will be different depending on their location throughout the province, and how these relationships will play out is unknown. Strategies that are recommended in the immediate term that can be adopted by the KDCFS include increasing species and genetic diversity at the stand and landscape level by ensuring that all currently preferred and acceptable tree species are incorporated into intimately mixed plantations. Given the wide range of species that naturally occur in the West Kootenays, the KDCFS is already planting a mix of species (at least 2 and usually 3) on each cutblock, and will continue to do so, in order to improve plantation resiliency. The KDCFS will plant species suited to projected future climate conditions (facilitated migration) as soon as new species selection standards and seed transfer limits are set by the Ministry of Forests.

8.3.5 Labour Force

An available labour force (including foresters, forest technicians, logging and roadbuilding contractors, etc.) could become a major concern in the future. Over the last few years, enrolment in forestry programs throughout the province has steadily declined, resulting in fewer graduates entering the work force. In terms

of roadbuilding and logging contractors, KDCFS has had instances over the last 3-4 years where we've had only 1-2 bidders on tendered logging and road building projects. Clearly, if the trend continues, costs associated with management, logging and roadbuilding will increase over time. The Society is currently looking at reviewing its local hire policy and tendering process in an attempt to increase the number of bids.

The booming economy in Alberta is also having a noticeable impact on the availability and cost of labour in British Columbia. Increasing competition from Alberta for workers is placing wage and salary pressures on local contractors and operators as people migrate to Alberta.

9.0 Implementation Plan

9.1 Bill Payment

All bills will be paid monthly. Invoices received in the previous month will be reviewed and approved by staff, and where required, by the Board, and paid by the 15th of the following month.

9.2 Stumpage and PCFA Annual Rent Charges

Stumpage owed to the Crown will be paid by the mills who have purchased KDCFS logs (they deduct the stumpage costs from the log purchase price and forward the amount owing to the Crown). The Society will monitor stumpage bill payments made on our behalf to ensure that payments are made in a timely manner. Where deficiencies are noted, the Society will follow up with the mill directly to resolve the matter. Where a resolution cannot be reached within a reasonable period of time, the Society will pay the Crown the outstanding bill directly, and reconcile our account with the mill at a later date.

Community Forest Agreement annual rent charges of \$0.37/m³ of AAC (\$0.25/m³ for general and \$0.12/m² for fire preparedness) will be paid directly to the Crown prior to the annual invoice due date.

9.3 Financing

At this time, the Society plans to use its existing and projected revenues to finance the business. KDCFS has existing cash reserves, and a planned income stream at its disposal to operate the business: its existing standing timber inventory (STI), or timber under approved cutting permits. By Jan 1, 2007, the KDCFS will have approximately 23,000 m³ of standing timber inventory

remaining, or roughly 1 year's worth of AAC available for harvest under the new PCFA licence. Plans for additional cutting permit development are currently underway, with the goal of ensuring that the Society has sufficient STI beyond the first year of operation (at least one year of STI and preferably two).

9.4 Revenues Generated from the Sale of Timber

Annual revenues over the next five years are expected to fluctuate depending on the volume, species, and grades of timber harvested, and future log markets. Based on our assumptions, we anticipate that gross annual revenues will range between \$1.7 and \$2.5 million per year over the next 5 years. Annual sales revenues are specified in the projected financial statements included under Section 10.

Payment schedules for log sales vary by mill, but generally, payments for scaled log volumes are made twice a month.

9.5 Income from Grants, Contributions and Gifts

At this time, we are not budgeting on receiving any grants, contributions or gifts. While there is potential to receive Forest Investment Account (FIA) funding in future, we do not know when the KDCFS will become eligible, or how much money will be available to fund eligible programs.

Currently, FIA has funding available for Community Forest Agreement areas to conduct projects such as backlog reforestation, beetle probes, inventories, trail maintenance, etc. The FIA budget is set annually. If a PCFA licence is signed off by Dec 31, 2006, then the KDCFS will be eligible for FIA funding in 2007/8. Otherwise, the KDCFS will have to wait until the following year to be eligible for program funding.

In 2006/2007, the FIA budget for Community Forests was \$422,000. This budget is currently allocated amongst the 11 existing community forests based on area, with allocations ranging from \$15,000 to \$65,000. The budget for 2007/8 and beyond has not yet been determined. Given the uncertainty of when this licence will be awarded, the lack of FIA budget information, and the anticipated increase in numbers of community forests that will be awarded in the province in the near future, we have not placed any FIA funding estimates in our budget. Any potential projects that we determine are priorities in the next 5 years will be conducted subject to FIA funding.

10.0 Return to the Local Community and the Province

Since November 2004, the KDCFS has disbursed over \$677,000 in grants to over 65 non-profit organizations within Kaslo and Area D. Organizations that received funding cover the full range of community interests, including public health and safety, education, recreation, history and the arts, and special programs or projects catering to children, youth, and seniors. Examples of grants dispersed include: the Kaslo and District Public Library, the Kaslo Trail Blazer's Society, The Kaslo Arena Association, the Lardeau Valley Community Centre, Kaslo's Langham Cultural Society, the Periwinkle Children's Center, the Kaslo Legion, the Kaslo Volunteer Fire Department, the Kootenay Lake Historical Society, the Kaslo Skate Park, the Kaslo Seniors Housing Project, and the Kaslo Trades Scholarship Committee. A full listing of all of the disbursements made since November 2004 is included in Appendix II.

The KDCFS has a Board-approved disbursement policy, which is included in Appendix II. Changes to this policy are anticipated over time, and will be subject to Board approval.

The current policy states that proceeds from log sales are to be distributed at least once annually, and that the following programs are to be funded each year:

- Training programs such as Fire Suppression training (S-100), Survival First Aid, Environmental Management Systems Training, and other courses as the Directors see fit.
- Scholarships of \$5,500 to JV Humphries School in Kaslo supporting forestry-related education and a Trade School or similar program.

The KDCFS values and plans to continue to promote and support forest related education in the community. The exact form that this will take will be decided upon by future Boards, but could include the following programs: fire suppression and first aid training, scholarships, youth crew employment, school field trips, and forest-related educational programs in conjunction with local schools, to name a few.

Currently, as funding becomes available, all other non-profit community organizations are invited to submit written applications for funding. These applications are reviewed and prioritized by the disbursement committee using criteria outlined in the disbursement policy. The committee's recommendations are then presented to the Board for final approval. The process for disbursements is expected to evolve over time, and will require Board approval.

The current disbursement policy provides the following general direction on how applications are to be prioritized:

- Facilities in Kaslo and Area D that are well used
- Projects in Kaslo and Area D that are well established
- Projects and non-profits that create extra benefit to the community
- Accrue 20% of the total of all disbursed amounts into a term deposit earmarked for specific capital projects.

Improvements to or expansion of recreation sites or trails will be supported indirectly through grants to existing organizations, in accordance with the disbursement policy in effect at that time. Since 2004, the Society has funded the following recreational organizations: The Kaslo Trail Blazers Society, the Kaslo Riding Club, the Ainsworth Recreation Society, the Kaslo to Sandon Rails to Trails Society, and the Empire Wilderness Society.

Improvements to roads accessing recreational facilities (eg. the Keen Creek road accessing Kokanee Creek Provincial Park) will be considered in future, subject to local interest and funding.

Financial benefits generated by the PCFA related to employment, income and provincial government revenues are listed in Section 7.0 of this business plan.

11.0 Projected Financial Statement Summary

Appendix III contains the projected financial statements for the PCFA, including:

- Critical Assumptions
- Financial Position (Balance Sheet)
- Profit and Loss (Income and Expenses)
- Cash Flow (Annual and Monthly for 2007)
- Capital Assets and Capital Budget.

Net income is projected to be positive throughout the 5-year forecasting period, and the Society's financial position is projected to improve by about \$1.2 million during this period. Operations in each of the 5 years will generate positive cash flows, for a net increase of \$800,000 over the 5 year period. Total cash flow for 2007 will be positive (\$138,000), despite significant investments in road construction and cutting permit development in that year. Temporary shortfalls in 2007 monthly cashflows will occur, which will be covered by unrestricted cash reserves from previous years. KDCFS will have capital assets valued at \$240,000 at the beginning of 2007, which will increase to \$550,000 by the end of 2011.

Appendix I

2005 Financial Statements

**KASLO AND DISTRICT COMMUNITY FOREST SOCIETY
FINANCIAL STATEMENTS
31 DECEMBER 2005
(Unaudited - See Notice to Reader)**

INDEX

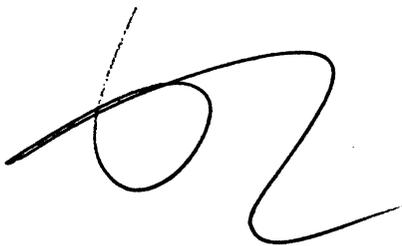
1. Index
2. Notice to Reader
3. Statement of Financial Position
4. Statement of Operations
5. Statement of Changes in Net Assets
6. Statement of Changes in Cash Flows
- 7, 8. Notes to Financial Statements

NOTICE TO READER

I have compiled the Statement of Financial Position of the KASLO & DISTRICT COMMUNITY FOREST SOCIETY as at 31 DECEMBER 2005, the Statements of Operations, Changes in Net Assets and Cash Flows for the year then ended, from information provided by the Society.

I have not audited, reviewed or otherwise attempted to verify the accuracy or completeness of such information.

Readers should be aware that these statements may not be appropriate for their purposes.



Manon A. van Tuyl
Certified Management Accountant

Kaslo, B.C.
05 July 2006

KASLO AND DISTRICT COMMUNITY FOREST SOCIETY
STATEMENT OF FINANCIAL POSITION
AS AT 31 DECEMBER 2005
(Unaudited - See Notice to Reader)

ASSETS

CURRENT ASSETS	31/12/05	31/12/04
Cash	\$ 433,453	\$ 318,589
Forest Act Security Deposit	1,858	1,821
Accounts Receivable	105,439	244,526
Prepays	7,067	7,875
	<u>547,817</u>	<u>572,811</u>
CASH HELD FOR FUTURE SILVICULTURE	300,660	207,559
CASH HELD FOR FUTURE WATER	44,587	13,883
	<u>345,247</u>	<u>221,442</u>
(Note 2)		
CAPITAL ASSETS (Note 2)	97,387	224,690
	<u>\$ 990,451</u>	<u>\$1,018,943</u>
	=====	=====

LIABILITIES AND NET ASSETS

CURRENT LIABILITIES		
Accounts Payable	\$ 95,834	\$ 325,938
FUTURE SILVICULTURE LIABILITY	300,660	207,559
FUTURE WATER LIABILITY	44,587	13,883
	<u>345,247</u>	<u>221,442</u>
(Note 2)		
NET ASSETS		
Invested in Capital Assets	97,387	224,690
Unrestricted	451,983	246,873
	<u>549,370</u>	<u>471,563</u>
	<u>\$ 990,451</u>	<u>\$1,018,943</u>
	=====	=====

KASLO AND DISTRICT COUMMUNITY FOREST SOCETY
STATEMENT OF OPERATIONS
FOR THE YEAR ENDED 31 DECEMBER 2005
(Unaudited - See Notice to Reader)

	31/12/05	31/12/04
REVENUE	\$ 1,854.392	\$ 852,177
DIRECT COSTS		
Forest License	3,700	1,850
Logging Cost	864,748	403,870
Road Construction	245,870	39,219
Silviculture	164,093	9,103
	<u>1,278.411</u>	<u>454,042</u>
OTHER FOREST COSTS		
Business Management	43,876	24,551
Cutting Permit Development	20,208	-
Forest Engineering	10,859	1,352
Planning	3,448	2,797
Professional Services	-	1,532
	<u>78,391</u>	<u>30,232</u>
OTHER REVENUE		
Interest	12,788	3,466
Other	1,345	340
	<u>14,133</u>	<u>3,806</u>
ADMINISTRATION EXPENSES		
Advertising	5,057	1,524
Amortization	127,303	19,348
Bad Debt	400	-
Bank Charges	372	167
Insurance & Licenses	10,263	6,103
Management Fees - Woodlands	77,530	-
Office	19,671	5,089
Professional Fees	8,873	2,816
Office Rent	4,440	2,220
Disbursements to Community	170,311	133,825
Telephone	1,798	741
Travel, Education, & Conventions	4,960	-
Wages & Benefits	2,938	1,196
	<u>433,916</u>	<u>173,029</u>
EXCESS OF REVENUE OVER EXPENSES/ (EXPENSES OVER REVENUE)	\$ 77,807	\$ 198,680
	=====	=====

KASLO AND DISTRICT COMMUNITY FOREST SOCIETY
 STATEMENT OF CHANGES IN NET ASSETS
 FOR THE YEAR ENDED 31 DECEMBER 2005
 (Unaudited - See Notice to Reader)

	Invested In Capital Assets	Unrestricted	Total 31/12/05	Total 31/12/04
NET ASSETS, BEGINNING OF YEAR	\$ 224,690	\$ 246,873	\$ 471,563	\$ 272,883
Excess of Revenue over Expenses (Expenses over Revenue)	(127,303)	205,110	77,807	198,680
	----- <u>97,387</u>	----- <u>451,983</u>	----- <u>549,370</u>	----- <u>471,563</u>
Purchase of Capital Assets	-	-	-	-
NET ASSETS, END OF YEAR	\$ 97,387 =====	\$ 451,983 =====	\$ 549,370 =====	\$ 471,563 =====

KASLO AND DISTRICT COMMUNITY FOREST SOCIETY
STATEMENT OF CASH FLOWS
FOR THE YEAR ENDED 31 DECEMBER 2005
(Unaudited - See Notice of Reader)

	31/12/05	31/12/04
OPERATING ACTIVITIES		
Excess of Revenue Over Expenses/ (Expenses Over Revenue)	\$ 77,807	\$ 198,680
Items Not Affecting Cash Flow		
- Amortization	127,303	19,348
- Provision for future silviculture cost	93,101	(42,722)
- Provision for future water cost	30,704	13,883
	<u>328,915</u>	<u>189,189</u>
Changes in Working Capital	(90,209)	102,464
Cash Provided By/(Used For) Operating Activities	<u>238,706</u>	<u>291,653</u>
INVESTING ACTIVITIES		
Capital Assets Purchased	<u>-</u>	<u>(160,568)</u>
 (DE)/INCREASE IN CASH	 <u>238,706</u>	 <u>131,085</u>
 CASH BEGINNING OF YEAR	 541,852	 410,767
 CASH, END OF YEAR	 \$ 780,558 =====	 \$ 541,852 =====
 Cash Represented By :		
Cash	\$ 433,453	\$ 318,589
Forest Act Security Deposit	1,858	1,821
Cash Held For Future Silviculture	300,660	207,559
Cash Held For Future Water	44,587	13,883
	<u>\$ 780,558</u> =====	<u>\$ 541,852</u> =====

KASLO AND DISTRICT COMMUNITY FOREST SOCIETY
NOTES TO FINANCIAL STATEMENTS
31 DECEMBER 2005
(Unaudited - See Notice to Reader)

1. KASLO AND DISTRICT COMMUNITY FOREST SOCIETY

The Society was incorporated under the Society Act of the Province of British Columbia on May 23, 1996. Its purpose is to establish and promote sustainable forest practices in Kaslo and the surrounding region, and to promote the greatest benefit to the community from forestry initiatives. The Society obtained a fifteen year forest license, on 1 January 1997, covering some 6,200 hectares of crown land around the Village of Kaslo, with an annual allowable cut of 10,000 cubic metres. The Society is a non-profit organization as defined under paragraph 149(1)(1) of the Income Tax Act and accordingly, is exempt from income taxes provided certain requirements under the Income Tax Act are met.

2. SIGNIFICANT ACCOUNTING POLICIES

The following is a summary of the significant accounting policies of the Society.

Capital Assets

Capital assets are recorded at cost. Amortization is calculated on a straight-line basis over the useful life of the assets as follows:

Computer equipment	20%
Furniture and fixtures	10%
Cutting Permit Development (3.50/m3)	life
Roads	20%

Future Silviculture & Water Liability

The Society is required under the terms of its forest licence to replant any area harvested under the licence. The cost of future silviculture and water requirements are estimated by management, and provided in the year of harvest (silviculture \$ 7/m3 and water \$ 1.5/m3 respectively). Any difference in actual cost of silviculture/water will be a charge or reduction to expense in the year the silviculture/water activity is carried out.

Financial Instruments

The Society's financial instruments consist of cash, accounts receivable, and accounts payable. It is management's opinion that the Society is not exposed to significant interest, currency, or credit risks arising from these financial instruments. The fair values of these financial instruments approximate their carrying values, unless otherwise noted.

KASLO AND DISTRICT COMMUNITY FOREST SOCIETY
 NOTES TO FINANCIAL STATEMENTS
 31 DECEMBER 2005
 (Unaudited - See Notice to Reader)

3. CAPITAL ASSETS

	Cost	Accumulated Amortization	N.B.V. 31/12/05	N.B.V. 31/12/04
Computer Equipment	\$ 6,954	\$ 6,954	\$ -	\$ 103
Furniture and Fixtures	1,943	1,378	565	759
CP Permit Development	160,568	89,893	70,675	160,568
Roads	152,247	126,100	26,147	63,260
	-----	-----	-----	-----
	\$ 321,712	\$224,325	\$ 97,387	\$ 224,690
	=====	=====	=====	=====

4. CHANGE OF YEAR END

These financial statements cover 12 months vs 6 months for the previous accounting period.

Appendix II

Current KDCFS Disbursement Policy And Recent Disbursements

March 30, 2005

Board Approved Disbursement Policy Amendments

Hard Policy (This will be required by future boards unless changed by majority vote.)

1. **Disburse proceeds from log sales at least 1 time annually.** *This should be done approximately 1 month (30 days) before the AGM.*
2. **Continue annual financial support of training programs started in May 2004** *Fire Suppression S-100, Survival First Aide and Training in Environmental Management Systems and other courses as the Directors see fit.*
3. **Continue the Scholarship program at JVH in the amount of \$5500.00 to be disbursed as:**
 - a) **Scholarship program to receive \$2000.00 for forestry related education.**
 - b) **Trade School or similar program to received \$3500.00**
4. **Request performance reports on any grants or donations larger than \$500.01, this will need some more work at the committee level to develop a consistent format for reporting.**

Soft Policy (Each section will be considered by future disbursement committee's before making recommendations to the Board of Director.)

1. **Disburse money to facilities in Kaslo and Area D that are well used.** *In the future disbursement committees will take into consideration the number of people hours a facility is used per year.*
2. **Disburse money to projects in Kaslo and Area D that are well established.**
3. **Disburse money to projects and non-profits that create extra benefit to the community.** *Spin off revenues generated from Grants distributed by K+DCFS can create a ripple effect in spending.*
4. **Commit to an annual donation of \$500.00 min to Kaslo Library**
5. **Commit to an annual donation of \$500.00 min to Light up the Hospital.**
6. **Accrue 20% of the total of all disbursed amounts into a term deposit earmarked for specific capital projects.**
7. **Commit to an annual donation of \$1000.00 min to Logger Sports Day.**

Recent Disbursements – Kaslo and District Community Forest Society

ORGANIZATION	Nov. 2004	Mar. 2005	Oct. 2005	Dec.2005	Apr-06	Grand Total
Kaslo & District Public Library	\$ 5,000.00	5,000.00	\$ 5,000.00	\$ 1,000.00		\$ 16,000.00
Contact: Chair Ann McNab 353-2942						\$ -
						\$ -
Kaslo Trail Blazers Society	\$ 5,000.00	7,500.00	\$ 2,500.00	\$ 5,000.00		\$ 20,000.00
Contact: Silvio Lettrari 353-2968				Benches and Tables		\$ -
						\$ -
Kaslo Arena Association	\$ 37,500.00	50,000.00	\$ 10,000.00	\$ -		\$ 97,500.00
Contact Jeff Davie - 353-7628		Term Deposit	Term Deposit			\$ -
						\$ -
Kaslo and District Curling Club	\$ 7,500.00	0.00	\$ 2,500.00	\$ -		\$ 10,000.00
						\$ -
JVH School Basketball		500.00	\$ 500.00			\$ 1,000.00
Contact A Leathwood - 353-2227						\$ -
						\$ -
Kaslo Eagles Community Football		1,000.00	\$ 500.00			\$ 1,500.00
Contact C Zuk - 353-2672						\$ -
						\$ -
Kaslo May Queen Pageant		500.00	\$ 500.00			\$ 1,000.00
Contact - T Bennett - 353-2424						\$ -
						\$ -
Kaslo Riding Club	\$ 200.00	150.00	\$ 200.00			\$ 550.00
Contact I MckInnon - 353-7720						\$ -
						\$ -
Lardeau Valley Community Centre	\$ 12,500.00	15,000.00	\$ 4,000.00			\$ 31,500.00
Contact S Hamilton 366=4676		Term Deposit	\$ 1,000.00			\$ 1,000.00
						\$ -
Argenta Library Committee		500.00	\$ 1,000.00	\$ 500.00		\$ 2,000.00
Contact - D Borsos 366-4325						\$ -
						\$ -
JVH School Fitness Club		750.00				\$ 750.00
C Zuk - 353=2227						\$ -
						\$ -
Langham Cultural Society	\$ 10,000.00	7,500.00		\$ 7,000.00		\$ 24,500.00
Contact M Blanche 353-				Bld Upgrades		\$ -
						\$ -
Kaslo Legion Br #74	\$ 7,500.00	5,000.00	\$ 5,000.00	\$ 5,000.00		\$ 22,500.00
Contact B Seafoot 353-2369				Bld Upgrades		\$ -
						\$ -
Village of Kaslo		10,000.00	\$ 10,000.00			\$ 20,000.00
Contact R Sawyer 353-2311			Term Deposit			\$ -
						\$ -
Village of Kaslo (Building upgrades)			10,000.00			\$ 10,000.00
Contact R Sawyer 353-2311			Term Deposit			\$ -
						\$ -
Kaslo Minor Baseball Association		500.00	\$ 500.00			\$ 1,000.00
Contact R Abbey 353-						\$ -
						\$ -

ORGANIZATION	Nov. 2004	Mar. 2005	Oct. 2005	Dec.2005	Apr-06	Grand Total
Kaslo Chamber of Commerce		2,500.00	\$ 500.00	\$ 1,000.00		\$ 4,000.00
Contact R Abbey 353-						\$ -
						\$ -
Kaslo & Area Youth Council	\$ 1,500.00	1,000.00	\$ 2,000.00	\$ 1,500.00		\$ 6,000.00
Contact D Wiebe						\$ -
						\$ -
Ainsworth Recreation Society		250.00	\$ 5,000.00			\$ 5,250.00
Contact P Harnett 353-2102			Fire equipment			\$ -
						\$ -
Periwinkle Children's Centre	\$ 500.00	2,300.00	\$ 1,200.00			\$ 4,000.00
Contact B McGlynn 353-2222						\$ -
						\$ -
1st Kaslo Brownies & Girl Guides	\$ 500.00	500.00	\$ 300.00	\$ 300.00		\$ 1,600.00
Contact R Harper 353-						\$ -
						\$ -
JVH School - Gr 6/7 Field Trip		1,000.00	\$ 1,000.00	\$ 500.00		\$ 2,500.00
Contact H Harper						\$ -
						\$ -
JVH School Parent Advisory	\$ 1,500.00	2,500.00	\$ 500.00			\$ 4,500.00
Council Contact R Harper						\$ -
						\$ -
Kaslo Community Garden		500.00	\$ -			\$ 500.00
Contact Hazel Calder 353-2003						\$ -
						\$ -
Kaslo Senior Citizens Association	\$ 1,500.00	2,500.00	\$ 2,500.00			\$ 6,500.00
Contact T Meijer Drees						\$ -
						\$ -
Kaslo Jazz Etc Society		2,500.00				\$ 2,500.00
Contact S Rainville		Volunteer T- Shirt with KDCFS Logo				\$ -
						\$ -
Kootenay Lake Archives		3,300.00				\$ 3,300.00
Contact E Scarlett - 353=9633						\$ -
						\$ -
Kaslo Skate Park Committee	\$ 2,500.00	25,000.00	\$ 25,000.00	\$ 25,000.00		\$ 77,500.00
Contact D Wiebe -353-2658		Term Deposit	Term Deposit	Term Deposit		\$ -
						\$ -
Kaslo Singing Grannies		500.00	\$ 500.00	\$ 250.00		\$ 1,250.00
Contact C Caywood 353-7147						\$ -
						\$ -
Kootenay Lake Historical Society	\$ 12,000.00	12,000.00				\$ 24,000.00
Contact I Parker - 353=2525						\$ -
						\$ -
OPTions for Sexual Health, West Kootenay Branch		1,500.00				\$ 1,500.00
Contact L Christian 359-7125						\$ -
						\$ -
Kaslo to Sandon Rails to Trails	\$ 2,000.00	2,500.00		\$ 2,000.00		\$ 6,500.00
Contact J Embery 3553-2834						\$ -
						\$ -

ORGANIZATION	Nov. 2004	Mar. 2005	Oct. 2005	Dec.2005	Apr-06	Grand Total
Kaslo Slo Pitch Tournament		400.00				\$ 400.00
J Van Horn 353-2244						\$ -
						\$ -
Kaslo Golf Club	\$ 1,100.00	10,000.00	\$ 20,000.00	\$ 75,000.00		\$106,100.00
Contact B Gladu 353-2654		Term Deposit	Term Deposit	Term Deposit		\$ -
				with expiry date/ July 2006		\$ -
Kaslo Concert Society		500.00				\$ 500.00
Contact D Stewart 353						\$ -
						\$ -
Kaslo & Area Hospice Society		2,500.00	\$ 500.00			\$ 3,000.00
Contact M Bath						\$ -
						\$ -
Kaslo Part Time Paramedics	\$ 4,500.00					\$ 4,500.00
						\$ -
Kaslo Volunteer Fire Dept	\$ 5,600.00	15,000.00	\$ 4,000.00			\$ 24,600.00
Contact B MacMillan 353=7157						\$ -
						\$ -
Ainsworth Recreation Association		1,500.00				\$ 1,500.00
Contact P Hartnett 353-2102						\$ -
						\$ -
Empire Wilderness Society		900.00				\$ 900.00
Contact R Honkanen 353-2390						\$ -
						\$ -
Johnson's Landing Community Association		500.00	\$ 1,000.00			\$ 1,500.00
Contact C Yallop						\$ -
						\$ -
Trust For Kids		1,000.00	\$ 1,000.00	\$ 500.00		\$ 2,500.00
Contact B McKinnon 353-7720						\$ -
						\$ -
Kaslo Minor Hockey	\$ 1,000.00		\$ 1,000.00	\$ 1,000.00		\$ 3,000.00
						\$ -
Kaslo Trades Scholarship Committee	\$ 3,500.00		\$ 4,800.00			\$ 8,300.00
						\$ -
JVH Forestry Scholarship	\$ 2,000.00		\$ 2,000.00			\$ 4,000.00
						\$ -
JVH.... Field Repairs	\$ 2,000.00		\$ 2,500.00			\$ 4,500.00
						\$ -
						\$ -
RCMP....DARE	\$ 1,200.00					\$ 1,200.00
RCMPBoat Mooring			\$ 950.00			\$ 950.00
Crime Stoppers			\$ 400.00			\$ 400.00
						\$ -
Kaslo Sandon ... rails to trails	\$ 1,500.00					\$ 1,500.00
						\$ -
Kaslo Youth Soccer	\$ 500.00		\$ 500.00			\$ 1,000.00
						\$ -
JVH Breakfast Club	\$ 500.00		\$ 500.00			\$ 1,000.00
						\$ -
Parents for Education	\$ 300.00		\$ 300.00			\$ 600.00
						\$ -
Grad Class 2005	\$ 500.00					\$ 500.00

ORGANIZATION	Nov. 2004	Mar. 2005	Oct. 2005	Dec.2005	Apr-06	Grand Total
Grad Class 2006			\$ 500.00			\$ 500.00
						\$ -
JVH School... funding for CF field trips	\$ 500.00					\$ 500.00
						\$ -
North Kootenay Community Services	\$ 500.00				\$ 100.00	\$ 600.00
						\$ -
Loggers Sports 2005, 2006		500.00	\$ 1,000.00	\$ 5,000.00		\$ 6,500.00
				port bleachers		\$ -
JVH Senior Girls Soccer		500.00	\$ 500.00			\$ 1,000.00
						\$ -
Light up the Hospital		500.00	\$ 2,000.00			\$ 2,500.00
						\$ -
Langham Drama				\$ 500.00		\$ 500.00
Contact JC McKenzie 353-7673						
Search and Rescue			\$ 8,000.00			\$ 8,000.00
						\$ -
Jewitt School Lunch Program (provide at no cost to kids)				\$ 2,000.00		\$ 2,000.00
						\$ -
						\$ -
Salvation Army				\$ 300.00		\$ 300.00
						\$ -
Kaslo and Area Food Bank				\$ 1,700.00		\$ 1,700.00
						\$ -
Senior Housing Society Project				\$ 60,000.00		\$ 60,000.00
						\$ -
Lardeau Valley Fire Response			\$ 5,000.00			\$ 5,000.00
						\$ -
Strategic Planning Retreat			\$ 2,000.00			\$ 2,000.00
						\$ -
Jewett School			\$ 500.00			\$ 500.00
Grade 5 Fort Steele field trip			\$ 1,000.00	\$ 250.00		\$ 1,250.00
						\$ -
Kaslo Car Show Committee					\$ 120.00	\$ 120.00
Contact Norma Turner						
	132,400.00	198,050.00	\$151,650.00	\$195,300.00	\$ 220.00	\$677,620.00
ORGANIZATION	Nov. 2004	Mar. 2005	Oct. 2005	Dec.2005	Apr-06	Grand Total

Appendix III

Projected Financial Statement Summary:

- **Financial Projections (Pro Forma Statements)**
 - **Financial Position (Balance Sheet)**
 - **Profit and Loss (Income and Expenses)**
 - **Cash Flow (Annual and Monthly for 2007)**
 - **Capital Assets and Capital Budget**

Financial Projections – *Pro Forma* Statements

The following tables summarize the projected financial statements.

1. Critical Assumptions

All projections are based on actual results of the 2005 fiscal year and 2006 year-to-date statements as prepared by KDCFS. The 2006 YTD statements were projected to year-end.

It was assumed that the Water Contingency Fund would be grown until the end of 2007 only and that pay-outs will not occur during the forecasting period through the end of 2011. The Silviculture Fund receives the mandated \$ 7/m³ each year and it is assumed that only \$5/m³ is actually required each year for actual reforestation expenses. Net growth of this fund amounts hence to \$ 2/m³ each year over the projection period.

Capital Assets, in particular roads, bridges and Cutting Permit development are amortized/depreciated as follows:

Roads & Bridges: 20% on a straight-line basis.
Cutting Permits: useful life

All costs and revenues are estimated according to current market conditions, prices and past experience at KDCFS. Note however, that any and all of these can change unexpectedly, particularly over a forecasting period as long as this.

All projections are before taxes, if any, and before any disbursements to the community during 2007 to 2011.

2. Financial Position (Balance Sheet)

The Society's financial position will be improving by over \$ 1.1 million during the forecasting period. This growth is attributed partly to the growing Silviculture and Water Funds (\$ 300,000) but mostly to the equity/net assets (\$800,000) positions on the Liabilities side. This is balanced by matching growth in available cash (\$500,000) and fixed assets (\$ 400,000) plus Silviculture/Water Funds on the Asset side. There is no debt or financing required at any time. All growth is sustained through internal financing from existing cash and assets alone.

3. Profit and Loss (Income and Expenses)

Net Income (profit) is projected to be positive throughout the 5-year forecasting period. The strongest profits are projected for 2007 and 2011, each in the \$200,000 - \$300,000 range. In 2007, timber revenues per m³ are expected higher than in subsequent years while harvesting expenses and amortization of capital assets will still be relatively low. With lower projected

average timber revenues, higher harvesting cost and amortization, profits in 2008 through 2010 will be lower, between \$ 100,000 and \$ 130,000 per year.

4. Cash Flow

a. Monthly Cash Flow 2007

The monthly cash-flow table assumes full gross payments into the Silviculture and Water Funds, regardless of how much is actually spent on silviculture. This assumption differs from those made for all other projections that assume net fund contributions (see section 1. “Critical Assumptions”)

Operations in the year 2007 will generate total cash in the amount of \$ 138,000 by year-end, despite significant investments in road construction (\$200,000) and CP development (\$ 100,000) this first year. Looking at monthly cash-flows, the cash balance reaches its lowest point in September when shortfalls of over \$ 150,000 accumulate. However, there will be sufficient unrestricted cash reserves available from previous years to cover these temporary shortfalls. These reserves will amount to \$ 365,000 at the beginning of 2007.

b. Annual Cash Flows

The annual cash-flow projections assume net fund contributions allowing to show the funds as forms of cash. As this differs from the assumption made for the monthly cash-flow table, the annual results for 2007 cash are different from those calculated for the monthly table.

Operations in each one of the 5 years will generate positive cash flows for a total net increase of \$ 800,000 over the entire period. By the end of 2011, more than half (57%) of the total cash in the amount of \$ 1.5 million will be unrestricted while the balance (43%) will be contained in the restricted Silviculture and Water Funds. Cash shortfalls, potentially limiting the operations as planned during the period, are not anticipated at any time.

5. Capital Assets and Capital Budget

At the beginning of 2007, KDCFS will have capital assets valued at \$ 240,000, consisting chiefly of roads (\$ 144,000) and developed cutting permits (\$95,000). Aggressive road construction and CP development will increase net capital assets by \$ 130,000 during 2007 for a total of \$ 370,000 at year-end. In subsequent years, a slower pace of new development investments will be roughly balanced by depreciation. 2011 will again see increasing investment bringing the value of capital assets up to \$ 550,000 by the end of the projection period.

Statement of Financial Position (Balance Sheet)

	Actual	Projections					
	2005	2006 *	2007	2008	2009	2010	2011
CURRENT ASSETS							
Cash	433,453	365,311	503,531	640,631	782,731	924,831	882,489
Accounts Receivable	114,364	100,000	100,000	100,000	100,000	100,000	100,000
Silviculture Fund	300,660	295,000	341,000	391,000	441,000	491,000	561,000
Water Fund	44,587	60,787	95,287	95,287	95,287	95,287	95,287
Sub-total	893,064	821,098	1,039,818	1,226,918	1,419,018	1,611,118	1,638,776
FIXED ASSETS							
Roads	26,147	144,000	268,000	259,400	233,950	191,650	452,814
Cutting Permits	70,675	95,467	100,000	100,000	100,000	100,000	100,000
Office Equipment	565	-	-	-	-	-	-
Other							
sub-total	97,387	239,467	368,000	359,400	333,950	291,650	552,814
TOTAL ASSETS	990,451	1,060,565	1,407,818	1,586,318	1,752,968	1,902,768	2,191,590
CURRENT LIABILITIES							
Accounts payable	95,834	100,000	100,000	100,000	100,000	100,000	100,000
FUTURE LIABILITIES							
Silviculture Fund	300,660	295,000	341,000	391,000	441,000	491,000	561,000
Water Fund	44,587	60,787	95,287	95,287	95,287	95,287	95,287
sub-total	441,081	455,787	536,287	586,287	636,287	686,287	756,287
EQUITY (NET ASSETS)							
Net Assets Beginning of year	471,563	549,370	604,778	871,531	1,000,031	1,116,681	1,216,481
Profit for the year	77,807	55,408	266,753	128,500	116,650	99,800	218,822
sub-total	549,370	604,778	871,531	1,000,031	1,116,681	1,216,481	1,435,303
TOTAL LIABILITIES	990,451	1,060,565	1,407,818	1,586,318	1,752,968	1,902,768	2,191,590

Note

*) The projections 2006 are based on year-to-date statements as of June 30 and budget projections

Silv Fund: Starting in 2007, the fund is growing by \$2/m3, which is assumed to be the unused portion of the total \$7/m3 paid into the fund.

Water fund: Contributions cease after 2007

INCOME AND EXPENSES (Profit and Loss)

Fiscal Year	2007		2008		2009		2010		2011	
	# 10, 13 23,000		Lost Ledge 25,000		Lost Ledge 25,000		Lost Ledge 25,000		Keen Creek 35,000	
	\$	\$/m3	\$	\$/m3	\$	\$/m3	\$	\$/m3	\$	\$/m3
TIMBER SALES:	1,722,930	74.91	1,801,000	72.04	1,801,000	72.04	1,801,000	72.04	2,458,050	70.23
EXPENSES										
Logging	568,330	24.71	700,000	28.00	700,000	28.00	700,000	28.00	1,050,000	30.00
Hauling	250,010	10.87	378,500	15.14	378,500	15.14	378,500	15.14	357,000	10.20
Road Repair	14,720	0.64	25,000	1.00	25,000	1.00	25,000	1.00	35,000	1.00
Silviculture	161,000	7.00	175,000	7.00	175,000	7.00	175,000	7.00	245,000	7.00
TOTAL	994,060	43.22	1,278,500	51.14	1,278,500	51.14	1,278,500	51.14	1,687,000	67.48
Management, Admin Overheads										
Operations Supervision	115,000	5.00	125,000	5.00	125,000	5.00	125,000	5.00	175,000	5.00
Forest Stewardship Planning	50,000	2.17	30,000	1.20	25,000	1.00	25,000	1.00	25,000	1.00
Annual Rent	9,250	0.40	9,250	0.37	9,250	0.37	9,250	0.37	9,250	0.37
Admin & Office	24,400	1.06	24,400	0.98	24,400	0.98	24,400	0.98	27,000	0.77
Stumpage	57,500	2.50	62,500	2.50	62,500	2.50	62,500	2.50	87,500	2.50
Water Contingency Fund	34,500	1.50	-	-	-	-	-	-	-	-
TOTAL MANAGEMENT, ADMIN	290,650	12.64	251,150	10.05	246,150	9.85	246,150	9.85	323,750	12.95
				-		-		-		-
PROFIT (LOSS) BEFORE AMORTIZATION	438,220	19.05	271,350	10.85	276,350	11.05	276,350	11.05	447,300	17.89
AMORTIZATION (Roads, CP Dev., etc)	171,467		142,850		159,700		176,550		228,478	
PROFIT (LOSS)	266,753		128,500		116,650		99,800		218,822	

Note:

Silviculture expenses are mandated to be paid into a fund at \$ 7/m3, regardless of actual expenses.

Kaslo and District Community Forest Society - Probationary Community Forest Agreement 2007 Cash Flow Forecast

	January	February	March	April	May	June	July	August	September	October	November	December	TOTAL 2007
Harvest Volume (m3)					2,000	2,000	2,000	2,000	3,000	4,000	4,000	4,000	23,000
Cash In													
Revenue from Log Sales					149,820	149,820	149,820	149,820	224,730	299,640	299,640	299,640	1,722,930
Cash Out													
Road Construction								100,000	100,000				200,000
Logging					49,420	49,420	49,420	49,420	74,130	98,840	98,840	98,840	568,330
Hauling					21,740	21,740	21,740	21,740	32,610	43,480	43,480	43,480	250,010
Road Maintenance					5,000	4,000	3,000	2,720					14,720
Silviculture					14,000	14,000	14,000	14,000	21,000	28,000	28,000	28,000	161,000
Operations Supervision	9,000	9,000	9,000	9,000	9,000	10,000	10,000	10,000	10,000	10,000	10,000	10,000	115,000
Cutting Permit Development						25,000	25,000	25,000	25,000				100,000
Forest Stewardship Planning	8,500	8,500	8,500	8,500	8,000	8,000							50,000
Annual Rent										9,250			9,250
Admin & Office	2,000	2,000	2,000	2,000	2,000	2,000	2,000	2,000	2,000	2,000	2,000	2,400	24,400
Stumpage					5,000	5,000	5,000	5,000	7,500	10,000	10,000	10,000	57,500
Water Contingency Fund					3,000	3,000	3,000	3,000	4,500	6,000	6,000	6,000	34,500
Sub total cash out	19,500	19,500	19,500	19,500	117,160	142,160	133,160	232,880	276,740	207,570	198,320	198,720	1,584,710
TOTAL Cash	(19,500)	(19,500)	(19,500)	(19,500)	32,660	7,660	16,660	(83,060)	(52,010)	92,070	101,320	100,920	138,220
Cumulative Cash Balance	(19,500)	(39,000)	(58,500)	(78,000)	(45,340)	(37,680)	(21,020)	(104,080)	(156,090)	(64,020)	37,300	138,220	

Cash-Flow Projections

	2006	2007	2008	2009	2010	2011
Cash from Operations						
Receipts from Customers	380,000	1,722,930	1,801,000	1,801,000	1,801,000	2,458,050
Payments to Suppliers	(225,000)	(1,284,710)	(1,529,650)	(1,524,650)	(1,524,650)	(2,010,750)
Net Provision for Silviculture*	(5,660)	46,000	50,000	50,000	50,000	70,000
Net Provision for Water*	16,200	34,500	-	-	-	-
Net	165,540	518,720	321,350	326,350	326,350	517,300
Cash from Investments						
Road Construction	(180,000)	(200,000)	(84,250)	(84,250)	(84,250)	(439,642)
CP Development	(45,000)	(100,000)	(50,000)	(50,000)	(50,000)	(50,000)
Other						
Total	(225,000)	(300,000)	(134,250)	(134,250)	(134,250)	(489,642)
Increase (Decrease) in Cash	<u>(59,460)</u>	<u>218,720</u>	<u>187,100</u>	<u>192,100</u>	<u>192,100</u>	<u>27,658</u>
Cash Beginning of Year	780,558	721,098	939,818	1,126,918	1,319,018	1,511,118
Cash End of Year (before disbursements to community)	721,098	939,818	1,126,918	1,319,018	1,511,118	1,538,776
Consisting of:						
Cash and Short-term securities (unrestricted)	365,311	503,531	640,631	782,731	924,831	882,489
Silviculture/Water Fund (restricted)	355,787	436,287	486,287	536,287	586,287	656,287
	<u>721,098</u>	<u>939,818</u>	<u>1,126,918</u>	<u>1,319,018</u>	<u>1,511,118</u>	<u>1,538,776</u>

Note:

Unrestricted Cash at the end of 2005 was \$433,453

*) Silv Fund: Starting in 2007, the fund is growing by \$2/m3, which is assumed to be the unused portion of the total \$7/m3 paid into the fund.

Water fund: Contributions cease after 2007

EXISTING ASSETS, CAPITAL BUDGET AND AMORTIZATION SCHEDULE

	2006	Projection				
		2007	2008	2009	2010	2011
Existing Capital Assets *						
Roads & Bridges	26,147	144,000	268,000	259,400	233,950	191,650
Cutting Permit Development	70,675	95,467	100,000	100,000	100,000	100,000
Furniture, Fixtures, Computers	565					
Total Existing Assets	97,387	239,467	368,000	359,400	333,950	291,650
Capital Budget						
New Roads & Bridges	180,000	200,000	84,250	84,250	84,250	439,642
New Cutting Permit Development	45,000	100,000	50,000	50,000	50,000	50,000
Furniture, Fixtures, Computers	-					
TOTAL CAPITALIZED EXPENSE	225,000	300,000	134,250	134,250	134,250	489,642
Amortization						
New Roads & Bridges	36,000	40,000	16,850	16,850	16,850	87,928
Existing Roads & Bridges	26,147	36,000	76,000	92,850	109,700	90,550
CP Development	20,208	95,467	50,000	50,000	50,000	50,000
Furniture, Fixtures, Computers	565					
Total	82,920	171,467	142,850	159,700	176,550	228,478
NET CAPITAL ASSETS **	239,467	368,000	359,400	333,950	291,650	552,814

Note:

*) Beginning of year.

**) End of Year

Roads are amortized at 20% on a straight-line basis, CP Development over the useful life