



2006 REPORT

TIMBERLINE GESTION DE RECURSOS NATURALES
Santiago de chile

This is the first **Timberline | Gestion** annual report. It describes the functioning of the firm during 2006, with special reference to the context in which it operated.

The basic purpose of this 2006 Report is to let Timberline Natural Resources Group understand the status of its investment in **Timberline | Gestion**. As such, it integrates information such as description of financial statements, opinions around 2006 operations, and introduces some future prospects.

This 2006 Report will:

- demonstrate accountability and transparency;
- help effectively engage TNRG management; and to
- constitute an effective management tool, providing a collation of performance data and articulation of key issues and related management approaches.

Producing an annual report has been a long delayed task. Urgent matters always impede the ability to focus on things that are not perceived as urgent... well, an annual report, given the ambitious purposes it pursues, should be seen, if not as urgent, at least as key to our business.

I hope readers of this 2006 report will share my excitement for this firm that I see as advancing decisively towards maturity.



Juan Pablo Cerda, Manager
Timberline Gestion de Recursos Naturales



OUR COMPANY

Timberline Gestion de Recursos Naturales (**Timberline | Gestion**) is a natural resources management and consulting firm that began operations, in Chile, on July 1, 2004. **Timberline | Gestion** is incorporated as a Limited Liability Company, wholly owned by Timberline Natural Resources Group (TNRG) from Canada.

Since 1971, TNRG has provided technical and management forestry consulting services in North America. Due to an increasingly constrained market for forestry consultancy, in 2001 TNRG began looking for ways to leverage accumulated experience in new locales where Canada has strong trade links and where there is a niche for this experience.

The increasing South American interest in, and emphasis on, community-level management of public resources has been seen as creating a significant opportunity for countries in this region to benefit from Canada's experience in public lands management. From this, in 2003 TNRG envisioned the establishment of a subsidiary with a focus on providing services to the Chilean and Latin American market. And, in 2004, **Timberline | Gestion** was born.

MISSION | VISION | VALUES

Our business is to sell natural resources technology, processes, and management. Our mission is to help companies, governments and communities maximize the economic, social and environmental value of their natural assets.

In our vision, by 2012 **Timberline | Gestion** will lead natural resources management and consulting in Chile and Latin America through innovation, technical and management leadership, and ethics.

To lead, in our vision, means being:

- i. trusted by clients looking for the best service and care of their natural assets;
- ii. recognized as a firm that has proven successful in operating in contexts seen as economically uninteresting due to social bias and perception of high risk; and
- iii. respected equally by major companies, governmental and non-governmental agencies, as well as excluded people such as poor and indigenous.

We trust our vision, because we trust our values:

- i. undertaking work only if we have the expertise and technology to achieve quality and timeline expectations;
- ii. providing a challenging and rewarding work environment for our employees and the people accompanying us in particular initiatives;
- iii. being fair and responsive to clients and suppliers;
- iv. aiming for fair rates of returns in our businesses, as well as allowing for our suppliers and partners in business to realize fair profits;
- v. being good citizens, complying with all laws and obligations, including to assume our just amount of taxes;
- vi. improving continuously in all aspects of our businesses;
- vii. respecting intellectual property, from using licensed software to valuing indigenous knowledge

WHAT WE DO

The primary type of products and services that **Timberline | Gestion** provides are:

Land Management

Sustainable management of public forests. Management of forest reserves and conservation areas. Outsourcing of forest management

Community Development

Restoration of small owners' degraded land by the establishment of forest plantations. Partnerships to manage community forests. Development of community-based forest enterprises.

Technology & Management

Resource analysis and planning. GIS. Ecological services. Resource inventory. Forest operations. Software development. Community-company interface.



OUR 2006 WORK

2006 – ADMINISTRATION

Administration guides and oversees the functioning of **Timberline | Gestion**; and reports to its proprietor, TNRG.

During 2006 a major emphasis was put on consolidating the efficient administration of **Timberline | Gestion**. We updated infrastructure, better structured a capable team of people and advisors with clearer roles, and improved accountancy processes.

Administration ends 2006 facing the challenge of creating enough value for the company to justify increasing its professional resources.

Updated Infrastructure

Timberline | Gestion occupies a 35 m² office in Don Carlos 2939, in the heart of El Golf financial area of Santiago. This office is equipped with 4 work stations, a desktop and a laptop, printer, scanner, and WiFi internet.

This is the **Timberline | Gestion** address for all legal purposes. This location has proven to be a comfortable and convenient place to meet people and is appreciated by our partners from outside the city that know they have a place to work when visiting Santiago.

Through **Timberline | Gestion** interests in Sociedad Koyam, we count on a virtual branch in the city of Temuco, indispensable when participating in procurements where local presence is a requisite.

We consider that this infrastructure is enough to satisfy expected administrative demands during 2007.



Timberline | Gestion main office

Capable Team & Clear Roles

Since starting up, **Timberline | Gestion** has considered it equally important for its business to have proficient staff and external advising. During 2006 efforts were made to better coordinate these two forces, and define the role of every advisor, in order to increase efficiency of administration.

Timberline | Gestion is managed by *Juan Pablo Cerda*, forester, who acts as Manager and legal representative. His main responsibilities include keeping **Timberline | Gestion** functioning in all aspects, managing its finances and accounts, and representing it in dealing with TNRG, as well as coordinating provision of administrative services to our related company Sociedad Koyam

Juan Pablo started working for TNRG in 2003, where he was trained in TNRG's particular approach to business. In 2004 he returned to Chile, his country of origin, to start **Timberline | Gestion**. Juan Pablo is the sole **Timberline | Gestion** full time employee. The year ended with over 50% of Juan Pablo's time billable to projects.

Accountancy of **Timberline | Gestion** is managed by *Camilo Contreras*, professional accountant. Camilo keeps **Timberline | Gestion** books in Drysoft, an accounting system similar to Accpac and widely used in Chile; pays all legal duties (taxes, insurance, etc), and has due powers to represent **Timberline | Gestion** in front of the Chilean Revenues Agency. Camilo also produces monthly balances and provides administrative services to our related company, Sociedad Koyam. Camilo works 12 hours per week for **Timberline | Gestion**. The year ended with 80% of Camilo's time billable to projects.

During the second semester of 2006 we have designed an updated version of our web page. *Raimundo Edwards*, professional digital artist, is responsible for designing this page, as well as designing all graphic corporate material we began printing in 2006. Raimundo has recently produced a new logo for **Timberline | Gestion** and new inserts to be distributed. His computing skills are broad, and together with the small group of people that work with him, he has been included in proposals in which we participate.



Raimundo also provides services to Sociedad Koyam, being responsible for www.koyam.cl and all graphic material Koyam produces. Raimundo works 12 hours per week for **Timberline | Gestion**. The year ends with 50% of Raimundo's time billable to projects.

Raimundo, together with **Timberline | Gestion** management and Chris Hermansen, produced the original artwork upon which TNRG's new logo was designed.



Committed Advisors Chile & Canada

Management of **Timberline | Gestion** counts on key support from committed advisors from Canada and Chile. From Canada, we count on *Darrell Kure, Doug Walker, and Chris Hermansen*.

Darrell, responsible for building **Timberline | Gestion** accountancy methods, currently oversees management of our books.

Doug increased his involvement with **Timberline | Gestion** during 2006, becoming directly involved in strategic decision making. Doug, as representative of TNRG is responsible for overseeing overall management of **Timberline | Gestion**. Starting 2006, Juan Pablo Cerda directly reports to Doug.

Chris, designer of the fundamentals of **Timberline | Gestion**, currently advises us in strategic matters, and particularly looks for increasing our capabilities of business development. Working from Europe, during 2006 Chris has been a key factor in our involvement with new European opportunities.

Management of **Timberline | Gestion** also counted during 2006 on local advice from *Javier Vergara, Denis Gallet, and Jaime Undurraga*. These, besides providing specific advice, help "network" **Timberline | Gestion**. In their capacity as advisors, these 3 people do not charge **Timberline | Gestion**.



Javier, a broadly respected lawyer acts as **Timberline | Gestion** legal advisor. During 2006, we needed to resolve several corporate, intellectual property, and environmental legal issues. Every legal firm we worked with has been recommended by Javier. As such, we hired Navarrete & Cia (corporate issues), Albagli, Zaliasnik y Cia (intellectual property) and Vergara Abogados y Cia (environmental issues).

Denis, a French banker living in Chile, advises us in the conceptualization of new initiatives. During 2006, Denis has particularly helped us brand **Timberline | Gestion** as social entrepreneurship.

Jaime, a well known and respected business advisor, has supported **Timberline | Gestion** since its origins. Recently he has been coaching **Timberline | Gestion** on how to better sell services and products that companies and agencies might otherwise see as “uncritical” to their functioning.

All other administrative support is outsourced. Courier is externalized to a motorcycle courier company. Payment of bills is externalized to a web-based firm. Banking is mostly done by internet.

Main challenges foreseen in 2007, in terms of staff and external advising, are to reinforce coordination between specific internal and external resources, such as Camilo and Darrell, and Juan Pablo and Doug. Another main challenge is the risk of overbooking Juan Pablo’s time. We anticipate that assistance to the Manager in daily routines will become critical.

Improved Accountancy Processes

In 2006 **Timberline | Gestion** books were implemented in Drysoft, accountancy software that has automated most bookkeeping processes.

This, together with expertise that Camilo brings from starting up similar small companies, as well as accumulated expertise from TNRG and advice from

Darrell, resulted in a dramatic improvement in the bookkeeping.

Timberline | Gestion new accountancy processes are:

- For every transaction (receipt for expenses, etc) there is a “voucher” created and attached to the transaction evidence. This voucher includes the accounting codes and a description of the transaction. All vouchers and evidence are filed in binders in the office.
- Transactions are coded against two sets of codes. The first set defines “cost centres” (KO06001 for Koyam Administration, PB06002 for ProBosque Concession, etc) project. The “06” represents the year. The second set are “transaction types” (*Viaje* for Travel, *Oficina* for Office Expenses, etc). Transactions are coded against one cost centre; two, in which case amounts are split 50-50s; or three, where amounts are split 33-33-33.

- All this information is entered into the Drysoft system on a monthly basis. This software, created by the Chilean software company called Drysoft, is very similar to the AccPac used in TNRG. It includes modules designed for reporting all legal requirements to the Chilean Revenue Service, plus financial statement production, A/R, A/P, etc. Drysoft also supports the export of TXT files in order to perform reporting with Excel.
- Balance sheets and income statement are produced, and sent to TNRG by the 12th of each month.

Since 2006, Sociedad Koyam also use the Drysoft system. Camilo trained the Sociedad Koyam's bookkeeper, Cecilia Chihuailaf, in its use and provides support for her as needed. A similar set of cost centres and transaction type codes were developed for Sociedad Koyam, to facilitate exchange of information with [Timberline | Gestion](#).

Audited Statements

The second quarter of 2006, these new accounting processes were tested. Following advice from Walsh-King, PKF-International was hired to audit the 2005 Financial Statements as well as current accounting process of [Timberline | Gestion](#).

The audit started in July and concluded in December 2006, demanding almost all of Camilo's time, with significant contributions from Juan Pablo, Chris and Darrell.

The auditors concluded that beyond some minor issues, the statements [Timberline | Gestion](#) produced during 2006 – submitted monthly to TNRG- are reasonable and follow generally accepted accounting principles (GAAP). The 2005 Balance the auditors produced didn't show significant differences to the one [Timberline | Gestion](#) produced in January 2006.

However, at the same time the auditors recommended some adjustments to [Timberline | Gestion](#)'s accountancy processes. By December 2006, all these recommendations were in place, which permits starting 2007 with new accountancy processes in place.

A major challenge for [Timberline | Gestion](#) is to keep ensuring quality in Sociedad Koyam's accountancy. In parallel to improving internal processes, [Timberline | Gestion](#) also has improved Sociedad Koyam processes by providing accountancy services to Sociedad Koyam.

During 2006 **Timberline | Gestion** consolidated 3 major lines of business: ProBosque Patagonia, Sociedad Koyam, and consulting.



As **Timberline | Gestion** first began looking for opportunities in Chile, we began to learn about the Region of Aysén, Chile's second southern-most region, part of what is known as "Patagonia" in North America.

Aysén is remote and very lightly populated and was devastated by forest fires set by colonists in the mid 20th century. Of the original 8 million hectares of forest land there, between 2.5 and 4 million were completely destroyed by attempts to clear the land for agricultural purposes.

Like much of the rest of Chile, the native forest is incapable of re-establishing itself after large-scale burning. Therefore, much of Aysén is covered by "grasslands", with remnant burned logs and stumps intervening, and almost no shrubbery or forest cover of any kind, except where the forest did not burn. As a result, much of the topsoil on this cleared land has been lost and the productivity of the land overall is close to zero.



Of the remaining forest, a great deal is public land. In Chile, public land is deeply uninteresting to businessmen, who nearly universally feel they must own the land on which they invest in order to be successful.

Finally, the native forest is relatively slow-growing, with rotation ages similar to Canada; quite different from the more than two million hectares of fast-growing pine and eucalyptus plantations further north.



As a result of the above factors, there is very little interest in the Chilean business community in establishing a forest products industry in Aysén.

Nevertheless, the people who live in Aysén desperately need investment projects that respect and improve the damaged environment. Based on several meetings there, Timberline | Gestion has seen huge support from the regional government, local

businessmen, and even environmental NGOs to develop a local, sustainable, forest products business. This interest was reaffirmed in two sets of meetings during 2006.

In April 2004 TNRG, on behalf of Timberline | Gestion, submitted a proposal to CIDA's Industrial Cooperation program, which is designed to help companies to invest in projects that have strong positive development and environmental impacts in countries like Chile.

Unfortunately, since that time, we have been unable to get the project through the evaluation team, for various reasons mostly related to CIDA's delays.

During 2006, we were informed that the evaluation team was finally prepared to review the project. As of December 2006, only one member has yet to comment. We await CIDA-INC's comments and then know finally whether or not we will have their support in this project.

The project will run for about a year and will cost about CAN\$600,000, which CIDA will pay for. There is no "business upside" in this stage of the project, but we will be free to use the results of our study to further invest in Aysén, or not. We also expect to use the circumstances of the study to extend Sociedad Koyam business to Aysén.

Please see Appendixes for further information on this project.



Sociedad Koyam was incorporated in 2004, as a 50/50 joint venture between **Timberline | Gestion** and Corporacion Mapuche Lonko Kilapang. The main purpose of this association was originally to profit from planting trees in small indigenous properties. Through 2005, Sociedad Koyam had 3 employees.

Sociedad Koyam ended 2006 employing 34 fulltime people, and working from 5 offices. Andres Antivil is the General Manager, who is directly supported by an in-house lawyer, a bookkeeper, and office assistant.



Looking for the most cost-effective administrative structure, in 2006 Sociedad Koyam decided to outsource some components of administration and financial management to **Timberline | Gestion**. Sociedad Koyam also contracts with **Timberline | Gestion** for business development and strategic advice.

Timberline | Gestion worked closely with Sociedad Koyam during 2006 to completely regularize their accounting system and procedures. This work resulted in Sociedad Koyam regularizing all pending issues with authorities;

beginning to produce monthly statements to share with Lonko Kilapang and [Timberline | Gestion](#); and being successfully audited by PKF International.

During 2006, Sociedad Koyam established a 40 m² main office in Temuco. The office is well-located, and is equipped with 4 computers, printers, scanners, and internet. Field operations are driven from 4 offices in small rural towns.



During 2006 Sociedad Koyam acquired 3.6 hectares of land operating as a nursery, and two 4x4 vehicles. All employees are provided with a cell phone and in some cases Bluetooth equipment. GPSs and abundant field equipment has been also acquired.



In 2005 Sociedad Koyam undertook its second year of trial operations, planting 91 hectares of eucalyptus. In 2006, Koyam's first year of full operations, this number was increased 600%. This transitional growth in 2006 marks it as a critical year in Sociedad Koyam's brief history.

[See Appendixes for description of how risk flows throughout plantation business](#)

2004 Plantation Program

The second phase of this first prototype program of 90 hectares, started in 2004, was closed during 2006¹. All “bonificaciones” (grants) due the second season were collected (US\$100,000). A survival survey was conducted, and plantations showed an average 93% of survival. This secures collecting the second stage of “bonificaciones” due in 2007.

The 2004 program was funded with contributions from the two partners.

2005 Plantation Program

The first phase of this second prototype program of 91 hectares of eucalyptus was completed. By the end of 2006, 80% of the “bonificaciones” due the second season had been collected. Survival rates are currently estimated at around 97%, improving the likelihood of collecting the second stage of “bonificaciones” in 2008

The 2005 program was funded with contributions from the two partners, including the re-investment of 2004 “bonificaciones” received.

2006 Plantation Program

This program was designed to establish 250 hectares of Eucalyptus, Castanea, Pinus radiata, and native trees in Coastal Araucania, and 50 hectares of Pinus contorta in the Andes. Almost 100% were to occur in indigenous land.

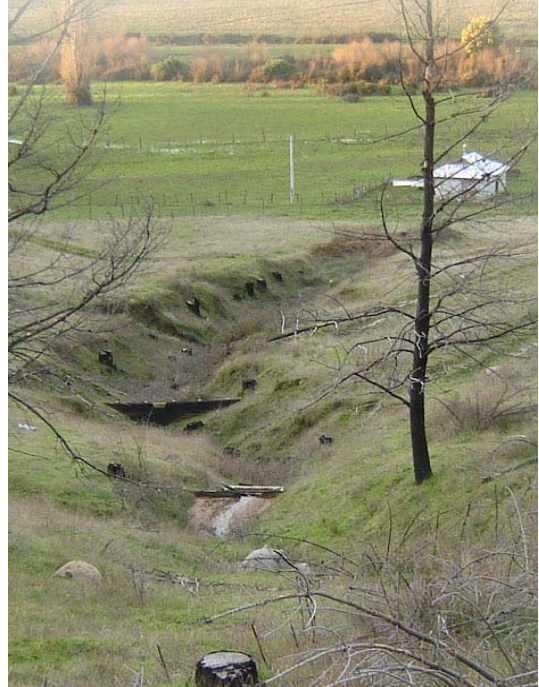
The year ended with 250 hectares planted in the Coast, and further 15 hectares planted in the Andes. This program expects to collect US\$336,000 in 2007 and US\$81,000 in 2009.

This 2006 plantation program was funded with re-investment of profits, and an open line of credit from BancoEstado (11.4% interest rate).

Interestingly enough, Sociedad Koyam secured these credits with the future “bonificacion” to come from planting.

By the end of the year, Sociedad Koyam had accessed US\$193,000 from BancoEstado.

¹ First phase: plantation; second phase: collecting 75% of grant; third phase: collecting 15% of grant



Forest plantations programs



Wepewen

This program, planned during 2006, aims to establish of 440 hectares of agroforestry systems per year. These systems are designed to contain strips of Araucaria (monkey puzzle tree) and pasture for ranching (alfalfa, etc). By the end of 2006, 178 hectares of Araucaria had been planted.

In some prototype hectares, this program started enrichment of natural grass in between the araucaria trees. The next phase involves establishing new crops, such as alfalfa.



This program expects to collect US\$300,000 in 2007 and \$75,000 in 2009 from the forestry part of the agroforestry systems. Costs of the enrichment of natural grass and the establishment of alfalfa are recovered from governmental subsidies.



Meeting Conservation International lawyers

Funding for this program has come from re-investment of profits, BancoEstado credit, and a US\$150,000 line of credit (10% interest rate) from Conservation International's VerdeVentures program.

Koyam Nursery

Since 2005 Sociedad Koyam has operated a 3.6 hectare nursery in Rengalil, 20 km from Temuco. This began operations by commercializing eucalyptus.

During 2006, through marginal investment, the nursery began to grow native trees and medicinal and culturally significant herbs. Most of the nursery tree production is for self-consumption. Herbs are to be used in Sociedad Koyam's cultural projects, and eventually commercialized in local supermarkets.

During 2006 Sociedad Koyam, acquired the land where the nursery is located. Together with the land, Koyam acquired water rights.



Paying first instalment to Señor Antivil

Koyam secured the acquisition with a down payment of US\$3,600. In July, Koyam paid a first instalment of US\$28,000. Three instalments are due in consecutive years starting in 2007, totalling US\$ 114,000.

Due to a very beneficial agreement with the owner of the property, Sociedad Koyam is free to use the land as collateral to credit.

CorpBanca, Sociedad Koyam's bank, valued the assets in US\$120,000.

During the year, the nursery improved its infrastructure to a value of US\$40,000, and was stocked with a high number of seedlings to be used in the plantation programs. This stocking happened as funds were available, and prioritized high-return species.



By the end of 2006, the nursery grows 410,000 eucalyptus; 120,000 *Castanea*; 15,000 *Nothofagus*; 4,000 cypress; 2,500 acacia; 550,000 araucaria. The immediate goal is to make Sociedad Koyam as independent as possible from acquisition of plants.



410,000 Eucalyptus globulus



550,000 monkey puzzle trees

Upon a business agreement with Forestal Mininco (Chile's second largest forest company) Koyam acquired *Pinus contorta* seedlings from Mininco's nurseries, to grow them in the Koyam nursery, more than doubling its price. This is expected to become an interesting business during 2007.

The nursery expects sales of US\$240,000 in 2007.

Lumaco

Sociedad Koyam has provided planting services to indigenous communities in the Comuna (Municipality) of Lumaco since 2005. These plantations are supported by a rotatory fund managed by the International branch of the French Office National des Forêts.

Prior to 2006, Sociedad Koyam was required to bid and compete with other providers. In 2006 Sociedad Koyam secured 100% of the business (220 hectares). During 2006 Sociedad Koyam established 200 hectares in Lumaco, with total invoicing of US\$350,000 with a 12% margin.

During 2006 Sociedad Koyam also secured a long term contract with the people of Lumaco. The French ambassador in Chile approved a MoU between Lonko Kilapang - Sociedad Koyam and the Union of Indigenous Communities of Lumaco in which these instances agreed in principle in a long-term contract where Sociedad Koyam provides services to the communities.



In parallel, the French government is transferring the administration of the "rotatory fund", initially established to reforest the communities of Lumaco, to Lonko Kilapang (partner of Timberline in Koyam) for 5 years.

Sociedad Koyam will be the sole provider of services and plants to the communities of Lumaco. The condition is for Sociedad Koyam to work with local resources, and to help Lonko Kilapang to train local leaders in the management of the rotatory fund.

This agreement is to be legally formalized in February 2007.

The nature of the Lumaco business will start a transition to transform from its current "fee for services" approach to the investment approach used in the rest of Koyam's operations, with the "rotatory fund" providing credit in lieu of other lenders. In this way, the people of Lumaco benefit by becoming a "for profit lender" to Koyam's operations.

Other Initiatives & Grants

Sociedad Koyam has increasingly positioned itself as a forest management company among medium-size landholders. During 2006 forest management plans were completed for over 100 hectares, as well as advising on land negotiation, and plantation establishment. This resulted in revenue of over US\$10,000.

Technical studies and a business plan for restoration of dunes through forest plantations were completed during 2006. A preliminary cadastre of over 1,500 hectares of dunes in indigenous land appears to provide Sociedad Koyam with a new line of business. At the end of 2006, Sociedad Koyam submitted a proposal to the Japanese Government Cooperation Agency to acquire a line of credit that would allow restoring 60 hectares of dunes per year, and collecting “bonificaciones” from the government.



Sociedad Koyam has created a new market for Araucaria seeds, supported by a solid network of providers of high quality seeds.

Impoverished Mapuche people earn a living mostly by climbing trees during certain months of the year to collect seeds, which they sell cheaply.

Koyam, paying suppliers more than twice than alternative buyers, has completed 2 medium scale purchases, together generating margins for Koyam of US\$5,100.

Employees of Sociedad Koyam, [Timberline | Gestion](#), and Lonko Kilapang incorporated the company “Nuevos Brotes”, an investment mechanism to buy land and plant trees. This new company, which doesn’t compete with Sociedad Koyam since Koyam is not in the land acquisition business, is mainly supported by monthly investments of employees, and some grants. This new company has granted Sociedad Koyam a long-term contract, renewable every 5 years to manage the fund, prospect and buy land, and do all planting. The goal of Nuevos Brotes is to act as a retirement fund for its owners.

In 2006 the Flemish Government short-listed Sociedad Koyam as the recipient of a US\$100,000 rotatory fund to be used for establishing trees in a buffer zone of forest reserves. It is expected that final resolution will be adopted in February 2007. If successful, Sociedad Koyam would establish a new field office in the Comuna of Curarrehue, thus opening a whole new geographic region to businesses.



The French Foundation Anber granted Sociedad Koyam US\$15,000 to design and build a greenhouse especially adapted to the rough climatic conditions of the Araucania and the local indigenous culture. Sociedad Koyam contracted with **Timberline | Gestion** the design and building of an innovative system of modular greenhouses.

During 2006 plans for the greenhouse were finished, as well as a business model to allow for poor communities to acquire the greenhouse.

It is expected that by February 2007 the first 2 prototypes will be built, and installed in Temuco. Based on the success of this project, Foundation Anber has requested that Sociedad Koyam develop a new project to be supported by Anber.

United Nation's Equator Initiative granted Sociedad Koyam US\$30,000 to help strengthen its internal capabilities. These resources are being invested in training to medium-level managers; extra legal support, and extra accounting.

Revision of Financial Model

During 2006 TNRG asked **Timberline | Gestion** to make Sociedad Koyam to revise the financial model, specifically to lower **Timberline | Gestion's** long-term financial risk arising from financing Sociedad Koyam.

This revision resulted in:

- Sociedad Koyam securing its own financing, independent of **Timberline | Gestion** (thereby reducing TNRG's financial commitment by US\$160,000);
- No additional financing needed from TNRG;
- Financial contributions of **Timberline | Gestion** returned completely by the end of 2007 (two years sooner than the previous model);
- 40% of Juan Pablo's salary cost for **Timberline | Gestion** covered by Sociedad Koyam (the original model covered none of Juan Pablo's costs);
- Take the opportunity to expand plantation business "indefinitely" through BancoEstado, and other credit opportunities



Consultancy

Timberline | Gestion management ended 2006 increasingly concerned about how much of its day-to-day business is dependant on Koyam. Therefore, the priority for 2007 is to increase efforts to diversify Timberline | Gestion lines of business.

Strategically, during the second half of 2006, consulting was prioritized. Over 15 proposals to do consulting were submitted to both public and private entities, and networking –mostly facilitated by external advisors- was increased. Two of these resulted in work for Timberline | Gestion.

Timberline | Gestion completed a consulting project for the Chilean Commission on the Environment. Timberline | Gestion proposed main guidelines to assess environmental impacts of game reserves in Chile.

Timberline | Gestion was hired by the power transmission firm TransChile to propose preliminary environmental and social compensatory measures for a transmission line in Southern Chile.

Timberline | Gestion & TNRG

Capitalizing on the local resources Timberline | Gestion and Sociedad Koyam had trained, Timberline | Gestion entered into agreement with TNRG to undertake photo delineation in 75,000 hectares for TNRG Project 1071104 "Vegetation Resources Inventory Phase 1 – Sunshine Coast TSA". This project will allow for updating Timberline | Gestion technical and professional capacity for photointerpretation, which is expected to result in 2007 in new local projects.

Once Timberline | Gestion has demonstrated its ability to provide technical and professional services to TNRG's customers, there may be other opportunities for business created by the large supply of high-quality, low-cost labour available in Chile. Large-volume, low-margin services of interest to TNRG's customers but outside the current ability of TNRG to deliver due to cost pressures may be seen to be feasible with the availability of this lower-cost labour pool.

INFORM has received several requests for information from South American forest products companies, in Chile and Uruguay. One such company is Forestal Mininco in Chile, which has looked at TheForestManager in the past but continued with developing its system internally as an ongoing series of “modules”.

Forestal Mininco has approached INFORM once again, considering the phased-in replacement of its home-grown forest management system with TheForestManager. Timberline | Gestion, advised by Chris Hermansen, is working with Steve Lipscomb to provide information for Mininco.

Even though we feel that this remains a somewhat outside opportunity at this moment, nevertheless, together with Steve Lipscomb, we are handling it differently than the previous procurement. Prices are given in ranges up-front, and potential issues are pointed out in clear language, so as to avoid doing further work based on misunderstandings.

From INFORM's point of view, creating a plantation-oriented product for use in Latin America would be timely, as Steve Lipscomb has had other recent requests from firms based in Uruguay.

This is an interesting opportunity for Timberline | Gestion to provide local support and build capacity in servicing INFORM customers, since the language differences, plantation requirements, and time differential all raise large barriers to supporting TFM out of Vancouver for Latin American customers.

International Business Development

During 2006 Timberline | Gestion, together with Chris Hermansen conceptualized new services that Timberline | Gestion could start providing to the international market. These services are:

- Investment opportunities of interest to investors looking for approximately 8-10% annual returns. Timberline | Gestion would use funds to finance operations of land recovery programs. The outcomes of this investment would very “green” and very ethical, since the program objective is to re-establish forests on degraded lands held by poor communities and individuals. Investment levels can be modest, and third party funds would managed as part of a pool of financing, mostly from bank sources
- Land acquisition for investors looking to purchase and manage lands, such as existing natural forests, for conservation; existing forest plantations, for production; or degraded lands to be reforested, for conservation or production. The outcomes of this investment could be goal specific environmental services, such as land rehabilitation (swaps, mitigation), carbon sequestration, or strengthening biodiversity networks; or alternatively forest production

- Fair trade opportunities of interest to merchants looking for new sources of ethically-traded goods, including honey, wild and domestic fruit preserves, wild mushrooms, nuts, herbal remedies and regimes, handicrafts, flowers, or produce
- Technology call centres, of interest to organizations needing to establish Spanish language call centres, especially those interested in generating collateral development benefits
- Social development programs, of interest to philanthropists and commercial organizations willing to develop new markets through building local capacity. Opportunities exist to raise family prosperity and generate increased economic activity through the establishment of planning centres, training centres, and manufacturing centres. Obvious new markets that could arise from such investments would include the sale of mobile telephones, tools & equipment, computers, building materials, and agricultural products.

The Government of Flanders in Belgium has considerable interest in further developing its bilateral development program with Chile, and Chris Hermansen has met with and discussed these project ideas with representatives of the Flemish government, of two Flemish philanthropic foundations, VZW Zuiderkraus and Stichting Gillès, and with Oprins, a family-owned Flemish company with worldwide interests in cultivating and using bamboo.

Juan Pablo Cerda has travelled to Portugal, and introduced these projects ideas to European businessmen, such as Mr. Andre Leclerq, president of the Anber Foundation.

Finally, together with Responsible Forestry Solutions of Toronto, Chris Hermansen, Juan Pablo Cerda, and John Cosco are providing information on TNRG's forest inventory expertise to the Bolivian Fundación José Manuel Pando, which is interested in new and better approaches to forest inventory and road network design as a basis for developing forest management plans. The foundation clearly recognizes the limitations of the current "state of the art" in Bolivian forest inventory and is actively pursuing links with international organizations with demonstrated expertise in this area.



OUR 2006 FINANCES

FINANCIAL STATEMENTS IN CHILEAN PESOS (\$)

Balance Sheet

Month Ending _ December 2006

Assets	Current Month December 2005	Current Month December 2006	Liabilities	Current Month December 2005	Current Month December 2006
Current Assets			Current liabilities		
Cash on Hand	0	0	Short-term loans	2,050,000	12,533,559
Cash on Bank	5,164,379	2,462,501	Accounts payable	0	0
Marketable Securities	0	0	Accrued payroll	1,675,608	3,492,003
Accounts Receivable	2,050,000	17,796,490	Taxes payable	-442,896	6,350,286
Loans due from Lonko	1,150,000	1,151,000	Other payable	0	538,288
Loans due from Koyam	35,251,006	30,251,301	Liabilities due less than 1 year	0	0
Loans due from Nvos Brotes	0	107,360	Other current liabilities: Severances	4,828,884	6,198,750
Provision for bad debt	0	0			
Prepaid Expense	0	0			
Other current assets	0	0			
Total Current Assets	43,615,385	51,768,652	Total Current Liabilities	8,111,596	29,112,886
Fixed Assets			Long-Term Liabilities:		
Fixed Assets - costs	886,964	2,579,592	Long-term loans	0	0
Accumulated depreciation	-118,262	-465,643	Payables due after 1 year	0	0
Subtotal fixed assets - net value	768,702	2,113,949	Total long-term liabilities	0	0
Other intangible assets		0	Other Liabilities		
"Mayor Valor Inversion"		-1,647,047			
Amortization of Investment		27,451			
Investment in Related Companies	23,350,340	101,896,153			
Guarantees		400,000			
Total Other Assets	23,350,340	100,676,557	Total Liabilities	0	0
Total Assets	67,734,427	154,559,158	Owner's Equity		
			Paid-in-Capital	1,000,000	1,000,000
			Monetary Correction	65,008	70,963
			Reserve Capital	97,472,427	128,030,747
			Current year net income	-29,360,722	-39,303,010
			Retained Earnings	-9,553,882	35,647,572
			Total Owners Equity	59,622,831	125,446,272
			Total Liabilities & Owners Equity	67,734,427	154,559,158

	Income Statement December 2005		Income Statement December 2006
	Current Month December 2005	Current Year Cumulative	December 2006 Cumulative
Revenues	3,225,376	12,132,590	15,961,899
Direct Project Costs	-11,751,317	-32,940,171	-10,504,248
Gross Profit	-8,525,941	-20,807,581	5,457,651
General & Administrative Exp.			
Office Expense	-940,520	-7,462,868	-1,588,382
Depreciation Expenses	-118,262	-118,262	-30,212
Administrative Staff Salaries	-160,000	-960,000	-80,000
Employee Benefits	0	0	0
Total Operating Expense	-9,744,723	-29,348,711	3,759,057
Interest expense	-12,011	-12,011	4,890
Income Before Tax	-9,756,734	-29,360,722	3,763,947
Income Tax over Chilean Invoices	0	0	0
Net Income	-9,756,734	-29,360,722	3,763,947

Preliminary Comments

The first thing to note about the financial statements is that these are based on the audit, conducted in mid-late 2006, by PKF International, auditors recommended by Walsh-King. These auditors are part of the auditing network of which Walsh-King is a member, and have the respect of Walsh-King.

PKF International has reviewed [Timberline | Gestion](#) and Sociedad Koyam statements through to October 2006 as part of their audit. Therefore, the December statements only include unreviewed information for two months.

Camilo Contreras, [Timberline | Gestion](#) accountant, has incorporated all of PKF International's recommendations in to these financial statements.

Looking at assets first, Accounts Receivable is quite large compared with 2005, reflecting the vastly increased size of the Sociedad Koyam plantation program in 2006. Investment in Related Companies has also increased by four-fold. This figure will diminish as Sociedad Koyam begins to pay dividends.

Looking at liabilities, [Timberline | Gestion](#) has accrued taxes payable this year, since it is making positive net income. Owner's Equity has doubled, reflecting ongoing TNRG cash contributions to [Timberline | Gestion](#).

Of interest is the Severances figure. The practice in Chile with respect to severances is different than in Canada. In Chile, severances are always paid out, regardless of whether an employee leaves or is fired. Therefore, it is normal practice to accrue severances.

Finally, looking at the income statement, [Timberline | Gestion](#) has gone from a net loss of slightly more than 29 million pesos, or about CAN\$62,000, in 2005, to a net profit after taxes of slightly more than 35 million pesos, or about CAN\$75,000, in 2006.

This seems a very important point in [Timberline | Gestion](#) 's short history - it has turned a significant profit after 2.5 years of operation, starting from absolutely nothing, and with no workloads or client relationships contributed by TNRG to help it get to its feet.

Without doubt, there will be new challenges facing TGRN in 2007 and beyond. TNRG management and shareholders should nevertheless feel vindicated in their decision to move forward with their investment in Chile.



APPENDIXES

PROBOSQUE PATAGONIA

More than 2.5 million hectares of forest lands were burned completely to the ground in the mid-20th century as a result of land clearing in Aysén. Most of this area remains today covered in low shrubs and there is a significant interest in, and opportunity to, reforest this land. Any forest project which could deliver “net new” forests in Aysén would have strong support from the environmental community, as well as from the government.

The regional government has developed a 10 year plan for Aysén, based on community input. The plan focuses on attracting investment and economic growth in the region while preserving or enhancing the quality of the environment.

In early 2003, TNRG began to develop a CIDA-INC proposal to undertake a viability study on a large area of public forest of Aysén, to determine if a forest concession managed on a subset of those lands could be economically, socially, and environmentally sustainable and thereby form the nucleus of a long-term development effort in Aysén.

The proposed study area covers approximately 390,000 hectares of medium to high-value public forest lands. The goal is to select a core area of approximately 150,000 hectares, 90,000 of which will form productive forest, 30,000 a biodiversity reserve network, and 30,000 to be reforested as productive forest or perhaps as carbon plantations. The actual size of the various components would be fine-tuned during the project according to the productive capacity and local geographical factors.

Key to the proposal is to reduce investment risk by ensuring that there is strong local support both from business people and environmental NGOs. TNRG ([Timberline I Gestion](#))'s sole interest in the project is to manage the concession.

One or more other investors are required to put in place forest products processing facilities. Other desirable investments would include ecotourism facilities, water bottling plants, and small-scale non-timber forest products processing capacity (for example, honey, fruit, mushrooms, herbal remedies).

The forests of Aysén (as well as the regions to the north and south of Aysén, and southern Argentina) are largely deciduous and processing operations produce a considerable amount of chippable or flakeable material. There is considerable interest throughout the region in the establishment of a production facility that can use this “wood waste” for energy or as a basis for solid products such as OSB.

The proposed viability study currently includes the development of a detailed forest ecosystem inventory, preliminary environmental and social assessments, and a study of wood properties. The viability study would take approximately one year and cost approximately \$600,000.

In December 2006, TNRG's proposal was finally submitted to the CIDA-INC evaluation team

The Study Area



South America; Chile

The Aysén Region of Chile ranges from 44°S to 49°S latitude and 72°W to 75°W approximately. It is the second southernmost region of Chile.

Its Pacific coastal areas have a cold humid climate, similar to northwestern British Columbia, and its interior a cold, dry climate, similar to south-central British Columbia.

The total area of Aysén is 109,024.9 km². The population in 1992 was 82,071, more than 50% of which was at that time located in the cities of Coyhaique and Puerto Aysén.

Rural income is based largely on ranching, with growing interest and capacity in fish farming and ecotourism.



Aysén Region of Chile and approximate location of study area

Several small forest products companies exist in the region, manufacturing sawn timber. Pulp wood currently has no value and is used as fuel.

Current forests cover approximately 4.5 million hectares of Aysén. A further 2.5 million hectares of deforested land is covered by low shrubs and grasses.

The study area is approximately 390,000 hectares of public forest lands in northern and central Aysén. Much of this area is concentrated on the coast. All of the land identified within the study area has been isolated from private property or other long-term leases to minimize planning constraints.

Four main types of forest exist within the study area: Guaitecas Cypress; Magallanes Coihue; Lenga; Siempreverde [evergreen].



Jorge Burgos, Bienes Nacionales Regional Manager, with Coihue harvested on roadside

The two species most commonly used for wood products in the region are Lenga (*Nothofagus pumilio*) and Coihue (*Nothofagus betuloides*). Both are deciduous species that can provide high-quality sawn timber, useful for building materials, moldings, doors, furniture, etc, but often exhibit significant form defect such as sweep or lean.

Ponderosa pine, Douglas fir, and Lodgepole pine are grown on plantations in the region. Some of these plantations are private, while others have been established by CONAF to recover degraded soils. Merchantability for

Ponderosa pine stands is generally expected to be 32-35 years, while that for Douglas fir and Lodgepole pine is slightly longer.

Timeline

The project timeline is given in the table below. As of the date of this writing, Timberline still awaits an indication from CIDA-INC as to whether CIDA will support the proposal.

<i>Date</i>	<i>Activity</i>
Sep – Dec 2002	<p>TNRG collaborates with INFOR to prepare a proposal for undertaking a regional forest inventory in Aysén.</p> <p>INFOR seeks funding from CORFO's FDI program. TNRG seeks funding from CIDA's INC program.</p> <p>INFOR's component is unsuccessful as FDI evaluation team determines it is not sufficiently innovative (INFOR has previously used FDI to fund similar inventory work in Region X).</p> <p>INFOR suggests that perhaps INFOR and TNRG could together pursue a forestry concession in Aysén, but then loses interest.</p>
Oct 2002	<p>Juan Pablo Cerda completes his M.Sc.F at UBC and begins working for Timberline in Vancouver. Part of Cerda's work is to provide his knowledge of Chile and use his connections there to further TNRG's business interests.</p>
Jun 2003	<p>TNRG, in discussion of concession concept with Jaime Undurraga, decides to pursue concession without INFOR's involvement.</p>
Jul – Dec 2003	<p>TNRG prepares concept paper for Aysén forest concession.</p> <p>Chris Hermansen of TNRG meets via telephone with André Leroux, program officer for CIDA-INC in Latin America, to discuss the idea of using the INC program to fund the viability study for the forest concession. Leroux agrees that the project concept is sound and meets INC criteria, and invites TNRG to submit a proposal.</p> <p>Initial proposal team is Javier Vergara and Pablo Villarino of Urrutia y Cia, Ricardo Katz and Leonel Sierralta of Gestión Ambiental Consultores, and Jaime Undurraga, as well as Cerda and Hermansen.</p>
Jan 2004	<p>Vergara, Villarino, and Undurraga meet with Gabriel Silver and Jacqueline Alluanlli of the Ministry of National Assets [BBNN].</p> <p>BBNN explains the concession process.</p> <p>Proposal team explains TNRG's proposed approach to undertaking a viability study, with CIDA support, for the concession.</p> <p>Proposed approach is well received.</p> <p>Proposal team decides to proceed with the next step, which is meeting with the regional concession committee in Coyhaique, the regional capital of Aysén.</p>
Jan 2004	<p>The sub-secretary of BBNN, Paulina Saball, writes a letter to TNRG summarizing the concession process and indicating the interest in using concessions to encourage sustainable development in southern Chile.</p>

<i>Date</i>	<i>Activity</i>
Jan 2004	<p>Vergara, Villarino, and Katz travel to Aysén with Cerda to meet with members of the regional concession committee and other interested parties.</p> <p>The attendees from Coyhaique include the Governor of Aysén, the Regional Secretary of BBNN, the Regional Secretary of the Ministry of the Economy, the Directors of CONAF and CONAMA, and the Principal of the Agricultural School of Aysén.</p> <p>The meeting is very positive and the Governor instructs the local BBNN staff to assist TNRG in identifying the proposed study area.</p>
Feb 2004	<p>Cerda works together with BBNN to find all unencumbered forested public land within the broad study area.</p> <p>Cerda meets with environmental NGOs in Aysén and receives cautious support for the project concept.</p> <p>Letters of support arrive from meeting attendees and other interested parties, including INFOR.</p>
Mar 2004 Mar 2004	<p>Cerda, Sierralta meet with Senator for Aysén, Antonio Horvath, and representatives of salmon farmers from southern Chile.</p> <p>Proposal to CIDA-INC completed and submitted. Proposal puts forward a viability study at a total cost of CDN\$1.2 million, 80% of which would be funded by CIDA-INC, and 20% by TNRG. The study would take 12-15 months to complete.</p>
May 2004	<p>Cerda and Hermansen meet with Leroux in Ottawa, to review proposal.</p> <p>Leroux is generally positive about the proposal. Because it is a forestry proposal, he indicates that it must go through a special environmental review before being circulated among CIDA's full review team.</p>
Jul – Aug 2004	<p>CIDA environmental reviewers scrutinize proposal and ask for amendments, including a Terms of Reference for the environmental impact assessment.</p> <p>Cerda and Hermansen complete ToRs according to CONAMA standard and submit to CIDA.</p> <p>Timberline's Chilean subsidiary is incorporated. Cerda relocates to Santiago to be the General Manager of the subsidiary.</p>
Sep 2004	<p>CIDA environmental reviewers demand letters of support from ENGOs in Aysén to demonstrate that they will participate in the study in a positive and constructive fashion.</p> <p>Cerda meets with representatives of CODEFF and CODESA and obtains letters of support for the project in principle.</p> <p>CIDA environmental reviewers give support to proposal.</p>

<i>Date</i>	<i>Activity</i>
Oct – Nov 2004	Cerda and Hermansen visit Coyhaique. Meetings are held with acting Governor of Aysén, Regional Secretary of BBNN, Director of CONAF, board of CODEFF, to update interested parties on progress of project proposal and to reaffirm TNRG (Timberline Gestion) 's interest in the project and in Aysén.
Dec 2004	Leroux visits Aysén with Cerda and meets with Governor, Regional Secretary of BBNN, Director of CONAF, representatives from CODEFF and CODESA. Leroux continues to be positive about the project following his visit to Aysén.
Feb – Mar 2005	CIDA-INC review team decides that amount of the requested support creates a large risk for INC that could be mitigated if TNRG (Timberline Gestion) can find a Canadian investor who would be capable of investing in a processing facility in Aysén should the viability study prove positive. Accordingly, Leroux instructs TNRG (Timberline Gestion) to find an industrial partner in order to pursue the proposal.
Feb 2005	TNRG (Timberline Gestion) reaches collaboration agreement with Forestal Mininco, the largest private forest land investor in Aysén and the second largest forest company in Chile. FM is interested in, and supportive of, the development of a larger forest industry Aysén. While they do not work in native forests, they see the merit of a broad range of forest interests in Aysén. Therefore they have agreed that: iv. TNRG (Timberline Gestion) can use FM “spare capacity” (staff, office space, other resources) in Aysén; v. TNRG (Timberline Gestion) can incorporate some aspects of FM's Aysén business into the viability study; vi. TNRG (Timberline Gestion) can use FM's nursery in Aysén for progeny trials.
Feb 2005	The Regional Secretary of BBNN in Aysén invites TNRG (Timberline Gestion) to draft a formal Memorandum of Understanding with respect to the concession project.

<i>Date</i>	<i>Activity</i>
Mar 2005	<p>TNRG (Timberline Gestion) begins search for industrial/investment partner.</p> <p>During this search, TNRG (Timberline Gestion) staff speak with representatives of three large Canadian forest products companies: Ainsworth, Tembec, and Norboard.</p> <p>Ainsworth is initially interested but determines that it is focused on developing initiatives in western Canada and declines to be further involved.</p> <p>Tembec, though it has a small operation in south-central Chile, is uninterested in pursuing native-forest initiatives further south.</p> <p>Norboard is the most interested. Norboard representatives indicate that, if TNRG (Timberline Gestion) were to undertake the study, they would review it carefully, provide input, and if the results were interesting, they would seriously consider an investment in Aysén.</p>
Sep 2005	<p>Hermansen meets with Leroux via telephone to indicate that the search for industrial partners is not producing solid results.</p> <p>Leroux indicates that one of the big problems faced by TNRG (Timberline Gestion)'s proposal is that it is over INC's internal approval limit and would require ministerial approval. This in turn would require a considerable amount of effort with respect to revamping the proposal to include a Strategic Environmental Assessment.</p>
Oct 2005	<p>Leroux confirms the previous point in a letter to TNRG (Timberline Gestion) dated October 19, 2005.</p> <p>Leroux points out that CIDA-INC contribution formulas have changed, providing less support to the proponent.</p>
Nov 2005	<p>Hermansen and Leroux continue to discuss the proposal.</p> <p>Hermansen suggests that TNRG (Timberline Gestion) could reduce the usage of external resources, and that, in combination with the lowered INC contributions, that the overall project cost could perhaps be reduced to below the level requiring ministerial approval.</p> <p>Hermansen also suggests that this reduction in INC contributions would in turn reduce the necessary downstream investment levels to something that TNRG (Timberline Gestion) could reasonably undertake on its own.</p> <p>Leroux invites Hermansen to prepare some detailed documentation describing this amended proposal.</p>

<i>Date</i>	<i>Activity</i>
Nov 2005	<p>Hermansen submits a revised proposal based on instructions from Leroux.</p> <p>The new proposed budget, taking into account a reduced INC contribution level and internalizing a great deal of the work, totalled \$730,870, of which INC would contribute \$600,000 (their maximum level without ministerial approval).</p> <p>The total downstream investment proposed would reach a maximum of approximately \$2.6 million in year three of operations, assuming the implementation of a portable sawmill, and \$2.3 million otherwise.</p>
Jul 2006	<p>After several months of consideration at INC, on July 26, 2006, Leroux sends Hermansen an e-mail that states:</p> <p>"Paul Hitschfeld and I met to discuss the pro-forma set of financial statement that you sent us and I am happy to tell you that we will send your proposal to our interdepartmental committee for evaluation. We have a new information system since this Summer and we are physically moving our offices in August. I will also be away on holiday for 3 weeks in August. I will do my best to process your file before I leave for my holidays but I cannot promise.</p>
Oct 2006	<p>Hermansen has sent several e-mails to Leroux and left voice mails requesting an update on the evaluation of Timberline's proposal.</p> <p>To date, no response has been forthcoming from INC.</p> <p>At this stage, it is unlikely that the project could be started in time to make use of the short summer field season in Aysén (approximately November – March) in 2006/2007.</p>
Dec 2006	<p>Leroux communicates Hermansen that he has submitted the proposal to the assessment committee, and that is giving them 3 weeks to comment on the merit of the proposal</p>
Jan 2006	<p>Leroux communicates to Hermansen that he has received all but one response from the committee members</p>

Participants

The TNRG (**Timberline | Gestion**) project team:

- Juan Pablo Cerda, Chris Hermansen, John Cosco, Dave Coster, Darrell Kure from TNRG (**Timberline | Gestion**).
- Jaime Undurraga, consultant: political, environmental, business consulting.
- Javier Vergara, lawyer: environmental and business law.
- Ricardo Katz, Leonel Sierralta from Gestión Ambiental Consultores: environmental assessment team.

- Chris Hunter, Rebecca Nelems from GeoSpatial International: gender / social assessment
- Peter Hipp, Jack Easton from Hipp Engineering: external reviewers.
- Ralph White from R White Woods: plantations team.

Other Canadian organizations:

1. Western Economic Diversification: WD has provided financial assistance in support of development of this initiative, as part of its mandate to assist western Canadian consortia in building new marketplaces.
2. Canadian International Development Agency: CIDA, through its Industrial Cooperation program [INC] provides financial assistance for viability studies and project startup for businesses who wish to invest in developing countries in projects or infrastructure that have a significant positive development impact.
3. Export Development Canada: EDC provides insurance to Canadian vendors and/or purchasers of Canadian goods, and assists Canadian investors active in foreign countries.

The main Chilean organizations important in the development of this project include:

1. Ministry of National Assets [Ministerio de Bienes Nacionales or BBNN] – responsible for managing public lands in Chile, in particular in charge of the public lands concession program.
2. Corporación de Fomento [CORFO] – public corporation responsible for promoting national development. CORFO provides funding and technical support through a number of national and regional programs.
3. Corporación Nacional Forestal [CONAF] – public corporation responsible for the management of Chile's forests. Also oversees the program of subsidies for reclamation of former forest land.
4. Comisión Nacional del Medio Ambiente [CONAMA] – public agency responsible for promoting the environmental sustainability of development and for coordinating actions arising from policy and strategies defined by the Government of Chile in relation to the environment.
5. Governor of Aysén – responsible for coordinating all aspects of regional development.
6. Agricultural School of Aysén – technical school located in Coyhaique, delivering programs in forestry and agriculture, part of a larger network of similar schools throughout Chile.

7. Ministry of Agriculture – responsible for agriculture in Chile; oversees INDAP, the Institute for Agricultural Development, and INFOR, the Institute of Forestry. Both of these Institutes provide key services and support for agriculture and forestry in Chile.
8. National Committee for the Defense of Flora and Fauna (CODEFF) - one of the strongest environmental NGOs in Chile. They are responsible for regulating the use of the Forest Stewardship Council brand in Chile, and were instrumental in organizing against, and eventually defeating, Noranda's proposed aluminum smelter in Aysén, Alumysa.
9. Private Corporation for the Development of Aysén (CODESA) – an NGO which promotes small-scale development within the Aysén Region. CODESA was also instrumental in defeating the Alumysa proposal.

Related Factors

The only current operating OSB plant in South America was developed by Louisiana Pacific at Panguipulli, in the Los Lagos Region (Region X) of Chile. This plant was originally constructed for a cost of US\$35 million to use 250,000m³/year of wood. Recently, the plant has been upgraded and production has been approximately doubled.

There are two other OSB plants in planning or construction in South America. One is in Brazil, the other in Venezuela.

Boise Cascade undertook a study to build an OSB plant near Puerto Montt in Los Lagos Region. While the plant design itself was highly regarded, Boise's plan to purchase all wood on the “open market” was seen by the Chilean environmental agency CONAMA as being strongly detrimental to the native forests remaining in Los Lagos. Accordingly, CONAMA turned down Boise's environmental assessment.

Juan Pablo Cerda, **Timberline | Gestion**'s general manager in Chile, worked for CONAMA's environmental assessment team prior to undertaking his M.Sc.F at UBC. He has reviewed a number of forestry-related environmental assessments and is very familiar with both positive and negative aspects of forestry projects in Chile, especially from the perspective of the Chilean government.

Gestión Ambiental Consultores are one of the most respected environmental consulting firms in Latin America. They are 50% owned by Ecology and Environment, one of the world's largest environmental consulting firms, located in Washington DC. Ricardo Katz, the president of GAC, was the driving force behind much of Chile's environmental legislation.

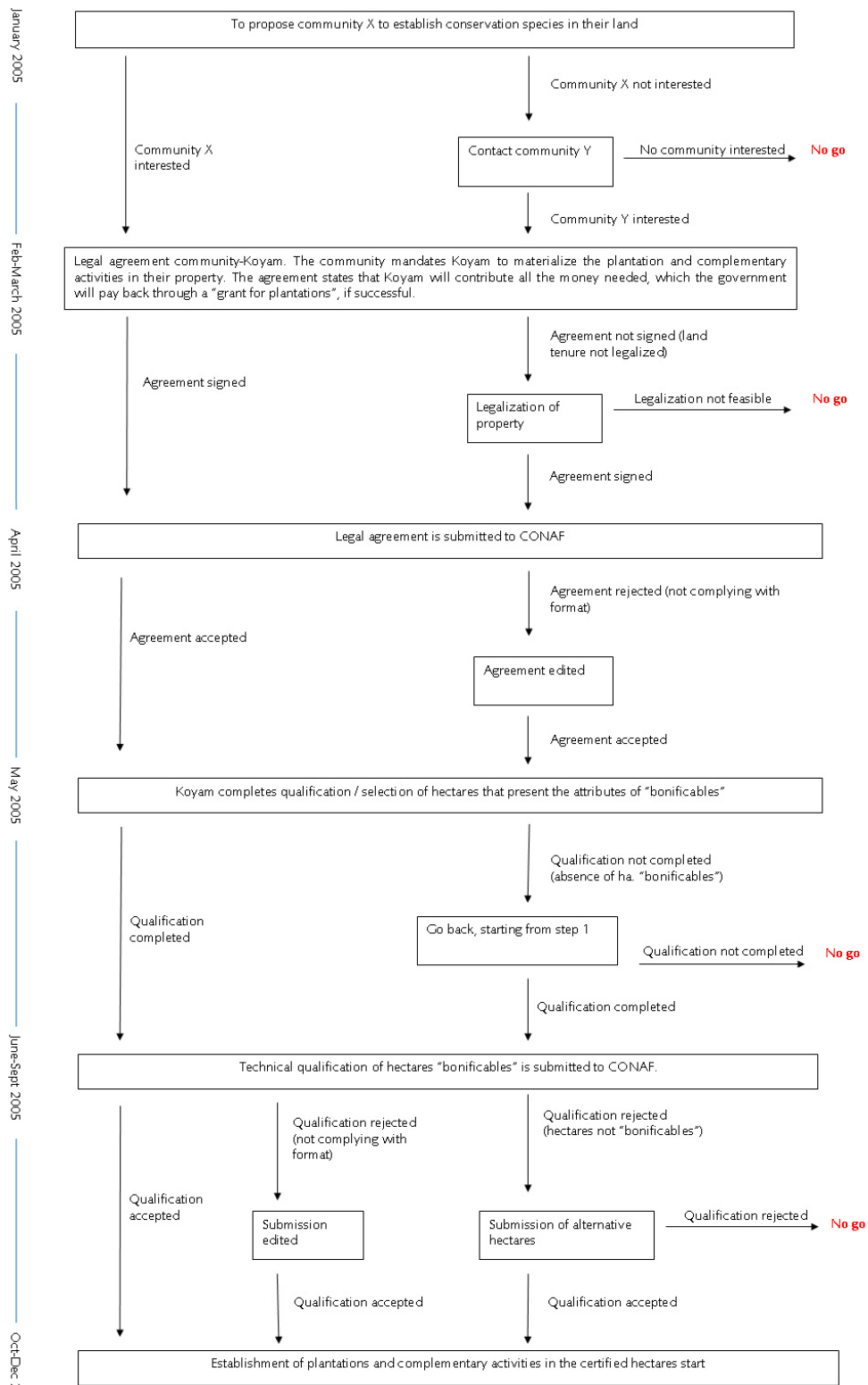
Jaime Undurraga is one of the best-known business consultants in Chile. He has worked for a diverse range of businesses in Chile, including CODELCO (the Chilean copper company) and CMPC/Forestal Mininco, the second-largest forest products company in Chile. His area of focus is the environment and social side of businesses, and he has helped many Chilean companies reduce

their risk by developing practical programs for engaging with environmental NGOs and society.

Javier Vergara, who practices on his own, is a highly respected Chilean lawyer. He provides a range of services useful to corporations involved in natural resource management.

Both CODEFF and CODESA have indicated that they will engage in the viability study and would be supportive of the development of the forestry concession proposed

RISK FLOW & PLANTATION



Oct-Dec 2005 ————— March 2006 ————— April 2006 ————— July 2006 ————— Aug-Dec 2007

