

This proposal is made to support the utilization of fibre that otherwise would be piled and burnt or left on site to rot contributing to carbon emissions. The requested funding is required to cover the cost differential between the cost of logging plus trucking and stumpage vs the price the local pulp mill would pay for the fibre. The proposal will also help to reduce the cost burden of any subsequent wildfire mitigation works due to the removal of logging debris and non-merchantable fibre. A related wildfire risk reduction proposal WR0000553 has been made, which includes 5 of the blocks in this proposal (A075003, K070001, K070002, K070003 and K070004)¹. The low cost structure proposed within WR0000553 is dependent on the approval of this proposal.

This proposal will reduce the wildfire risk on the associated cut blocks as more biomass in the form of non-merchantable timber will be removed to a secondary manufacturing site in addition to the traditional sawlog delivery to Kalesnikoff. This in turn will increase the fibre recovery thereby reducing carbon emissions created from slash burning and rotting fibre.

The timing of this proposal is projected to start January 14, 2019 and run until March 31, 2020. Kalesnikoff plans to start harvesting in Rover Creek CP 70 January 14, 2019, so partial funding is requested immediately to utilize the uneconomic fibre associated with the planned harvest within the 2018/19 FESBC fiscal.

Kalesnikoff has dedicated contractors with whom we have business relationships that are based on our commitment to utilize their services as they are committed to working for Kalesnikoff. Kalesnikoff only has a quota AAC of 90,000m³, FL A20194 = 34,703m³/yr and FL A30172 = 55,247m³/yr. Our business is dependent on our logging contractor relations and the commitments made. Due to these commitments and the low availability of cut we have no ability to tender out any of our harvest. Kalesnikoff will not commit or agree to any of the terms in the contract tendering guidelines as we cannot compromise our business model.

Administrative costs are to cover the duties of book keeping and payment. Kalesnikoff has companies at arm's length that can accept payment associated with this proposal in order to avoid any perceived subsidy associated with Softwood Lumber Agreement negotiations. The cost of supervision for the utilization of pulp and any work associated with applying for Specialty Forest Products utilization will be covered by Kalesnikoff (Valued at \$1/m³). Requested funds were placed as a lump sum under the contracted material/labour section of the cost category section.

KALESNIKOFF PROFORMA ROLL-UP OF FUNDING REQUIRED TO UTILIZE Grade 4, 6 and Z																											
CP-BLK	Area (ha)	Pulp Vol (m3)	Financials							Treatment Area (ha)			Volumes Utilized			Fiscal Spending											
			Pulp mill Value \$/m3	Tree to Truck \$/m3	Trucking \$/m3	Stumpage Rate \$/m3	Est. Stumpage \$/m3	Cost \$/m3	Net Value Total \$	Net Value \$/m3	2018/19	2019/20	2020/2021	2018/19	2019/20	2020/2021	2018/19	2019/20	2020/2021								
A075003	17.6	864	\$ 35.00	\$ 27.00	\$ 8.93	\$ 33.74	\$ 3.80	\$ 39.73	\$ (4,086.72)	\$ (4.73)		17.6			864		\$ 4,086.72										
A075004	7.6	741	\$ 35.00	\$ 45.00	\$ 13.86	\$ 33.74	\$ 3.39	\$ 62.25	\$ (20,192.25)	\$ (27.25)			7.6			741		\$ 20,192.25									
K070001	17.1	925	\$ 35.00	\$ 29.82	\$ 8.59	\$ 27.75	\$ 3.27	\$ 41.68	\$ (6,179.00)	\$ (6.68)	2	15.1		86	839		\$ 679.69	\$ 5,499.31									
K070002	25.5	972	\$ 35.00	\$ 27.00	\$ 10.36	\$ 27.75	\$ 3.05	\$ 40.41	\$ (5,258.52)	\$ (5.41)		25.5			972		\$ 5,258.52										
K070003	7.6	564	\$ 35.00	\$ 48.35	\$ 10.26	\$ 27.75	\$ 3.34	\$ 61.95	\$ (15,199.80)	\$ (26.95)	7.6			564			\$ 15,199.80										
K070004	9.8	562	\$ 35.00	\$ 41.30	\$ 10.65	\$ 27.75	\$ 3.21	\$ 55.16	\$ (11,329.92)	\$ (20.16)	9.8			562			\$ 11,329.92										
K070005	30.3	1739	\$ 35.00	\$ 38.29	\$ 11.35	\$ 27.75	\$ 2.89	\$ 52.53	\$ (30,484.67)	\$ (17.53)		14	16.3	803	936		\$ 13,718.10	\$ 16,766.57									
Total:	115.5	6367	\$ 35.00	\$ 35.74	\$ 10.60	\$ 29.26	\$ 3.22	\$ 49.56	\$ (92,730.88)	\$ (14.56)	19.4	72.2	23.9	1212	3478	1677	\$ 27,209.41	\$ 28,562.65	\$ 36,958.82	\$ 92,730.88							
																	5% Administration:										
																	\$ 1,360.47	\$ 1,428.13	\$ 1,847.94								
																	\$ 28,569.88	\$ 29,990.78	\$ 38,806.76								
																	\$ 97,367.42										

¹ The leading letter denotes the TSA in which the cutting permit block resides. A = Arrow K = Kootenay Lake

Assumptions made:

- The pulp volumes are estimates based on the timber cruise and knowledge of the block.
- The \$35 value the pulp mill pays is an estimate; typically the pulp mill pays any wares from \$28 to \$45. This proposal is dependent on a minimum pulp value of \$35.
- The tree to truck logging costs are based on our current market base rates for conventional and overhead cable logging.
- For trucking we currently pay: Long logs \$3.70/tn/hr, Shorts \$3.89/tn/hr.
- The stumpage is based on the strata conversions for pulp, Celgar's population 5051. If the Provincial Special Forest Products process is still in effect Kalesnikoff commits to utilize this method up to permitted bench marks, which will help to reduce the costs.
- Logging timeline may vary due to markets and logger availability.

Prepared by,

A handwritten signature in black ink, appearing to read 'Tyler Hodgkinson', with a long horizontal line extending to the right.

Tyler Hodgkinson, RPF