

LISA AK

WOOD WITH RESPECT 2007 REPORT



A RECORD YEAR

was had by lisaak Forest Resources in 2007. The First Nations-owned forestry company in Clayoquot Sound recorded strong local employment, stable cash flow, respectable profits and high environmental performance through the Scientific Panel recommendations and Forest Stewardship Council certification.

"This has been a real breakthrough year for lisaak," says Gary Johnsen, Chairman of lisaak Forest Resources. "We're proud of the progress that the company has made."

In May 2005, the five Nuu-chah-nulth First Nations of the Central Region bought out Weyerhaeuser's 49 percent stake in lisaak, becoming the sole owners of the FSC-certified forestry operator. The company's performance did not meet expectations during its initial years. As a result, the First Nations worked with Ecotrust Canada, a conservation and community economic development organization, to design a turnaround strategy to boost its environmental, social and financial performance.

In November 2006, the Central Region Nations hired Ecotrust Canada, and its partner Triumph Timber, to manage lisaak and revamp

its operations. The management contract included six environmental, social and financial objectives. (See the Turnaround Strategy sidebar on the next page.)

"With lisaak, we are actually starting to see a truly triple-bottom line company emerge in coastal forestry," says Ian Gill, President of Ecotrust Canada. "We brought a remarkable team of people together who are working incredibly hard everyday to make lisaak a success story."



lisaak is one of the first coastal forestry companies that has proved that you can implement ecosystem-based management, provide good jobs to local communities and make money at the

same time. Government, industry, environmentalists and other First Nations around the province are closely watching lisaak.

lisaak is now putting the finishing touches on its harvesting and marketing plans for next year. With the high value of the Canadian dollar and slumping U.S. housing market, the company expects to face a more challenging year in 2008. However, lisaak believes that the emerging worldwide market for FSC-certified wood may provide new opportunities and new buyers of its eco-certified wood.

HIGHLIGHTS

- ⇒ About 85,000 m³ of timber was harvested in 2007*
- ⇒ 47% of jobs are First Nations
- ⇒ 67% of jobs are local
- ⇒ FSC certification was re-instated
- ⇒ Financial profitability & stability
- ⇒ Emerging markets for FSC-certified wood

* not including 2006 carryover

TURNAROUND STRATEGY

The Central Region First Nations, in partnership with Ecotrust Canada, designed a strategy to revamp lisaak focusing on six key issues .

- ⇒ **Financial & Operational Stability**
Make lisaak financially self-sufficient, improve cash flow, implement proactive planning, and ensure financial flexibility.
- ⇒ **Reliable Business Systems**
Develop planning, financial accounting, reporting & human resources systems.
- ⇒ **Preferred Market Position**
Position lisaak as a preferred supplier in the market, fully leverage the FSC and lisaak brand and develop custom local markets to add value.
- ⇒ **Strong Capacity Development**
Build internal management capacity, increase First Nations management capacity and grow community involvement, employment and related opportunities.
- ⇒ **Strong Community Relationships**
Strengthen community, ENGO and shareholder relationships through regular presentations, meetings and communications.
- ⇒ **World Class Forestry**
Make lisaak a leader in ecosystem-based forestry in B.C. with its operations meeting FSC certification standards.

RESPECTING COMMUNITIES

lisaak is dedicated to ensuring that local communities accrue maximum benefits from forestry in Clayoquot Sound. As a company owned by local First Nations, lisaak's goal is to offer stable employment and income to local businesses, contractors and forestry workers. Indeed, the company's FSC certification requires that lisaak provide meaningful employment and benefits to local communities.

lisaak actively recruits qualified employees, contractors and suppliers from local communities. By the end of 2007, the

» lisaak is providing many Nuu-chah-nulth members with good forestry jobs and genuine business opportunities «

— Reuben Amos, Tla-o-qui-aht contractor

strategy began to show significant results:

- ⇒ First Nations make up 47 percent of all managers, employees and contractors (approximately 43 jobs in total)
- ⇒ Local residents make up 67 percent of all managers, employees and contractors
- ⇒ The first Nuu-chah-nulth supervisor was hired in October 2007
- ⇒ A significant percent of lisaak's \$11-million annual operating budget is spent locally on contractors, wages, services and suppliers
- ⇒ Currently, six of eight contractors are local including Ucluth Forest Products (Ucluelet), Rueben Amos Contracting (Tla-o-qui-aht), Cover Creek Ltd. (Ahousaht), Eagle Eye Forestry (Tla-o-qui-aht), Clayoquot Forest Environmental Ltd. (Ucluelet) and Peter Frank's Water Taxi (Ahousaht).
- ⇒ lisaak works to better its local relations through regular meetings and presentations to municipalities, First Nation councils, the Central Region Board, Central Region Management Board and Central Region Chiefs.



Ecotrust Canada, lisaak's managing contractor, continues to work on building more capacity in Nuu-chah-nulth communities to manage and operate their company. Ecotrust Canada has worked with each First Nation to design systems to connect local community members to potential job and contracting opportunities. In 2008, Ecotrust Canada and lisaak will explore local value-added opportunities and conduct governance training with lisaak's board of directors and shareholders.

TIMELINE

1980	1984	1985	1993
Nuu-chah-nulth First Nations reclaim their traditional lands. The federal government accepts the land claim for negotiation.	Tofino residents organized a boat blockade of Meares Island. The Tla-o-qui-aht and Ahousaht Nations declared the island a tribal park.	A court injunction is granted against logging on Meares Island pending treaty settlement.	800 people are arrested for blocking logging operations. B.C. Government appoints a panel of scientists and First Nations to make recommendations on special-use forest practices in Clayoquot Sound.



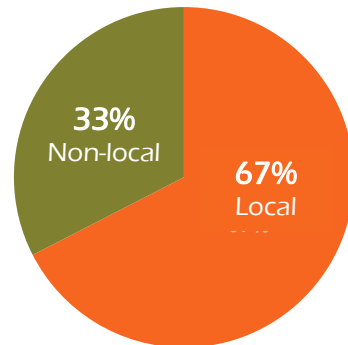
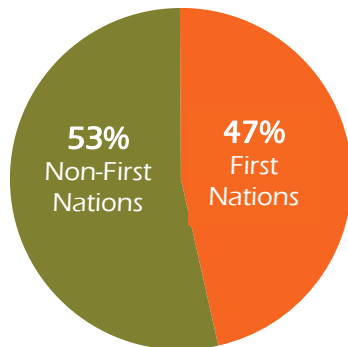
RESPECTING ECOSYSTEMS

lisaak is a pioneer in implementing ecosystem-based management (EBM) in B.C.'s coastal rainforests. EBM is an adaptive approach to forestry that ensures the coexistence of healthy, fully functioning ecosystems and forestry harvesting.

Since cutting its first tree in 2000, the company has been a leader in Forest Stewardship Council-certified forestry as well. FSC is a globally recognized, market-based certification system that encompasses social, environmental and economic values. It is the international "gold standard" for eco-forestry.

In September 2006, lisaak's FSC

CHARTS: lisaak employment



» lisaak is proving the business case for ecosystem-based management in BC forestry «

— Mike Vitt, lisaak General Manager & Ecotrust Canada Forestry Manager

certification was temporarily suspended because the company was not meeting FSC's standard for business management performance. Over the last year, the company improved its performance and its FSC certification was re-instated in August 2007, allowing it to sell its wood into FSC-certified markets.

First Nations have played a central role in setting high standards for forestry in Clayoquot Sound. In 1995, the government-appointed Scientific Panel for Sustainable Forestry Practices completed a series of groundbreaking reports that described how to manage the forests in Clayoquot Sound in a sustainable way. Co-chaired by Umeek, Ahousaht hereditary chief Richard Atleo, the Scientific Panel was remarkable for its expression of a First Nation worldview of forestry. By following both the Scientific Panel's recommendations and FSC's standards, lisaak's goal is to create a showcase for world-class forestry in Clayoquot Sound.

PHOTOS: (Top) Reuben Amos, Tla-o-qui-aht contractor; (Centre) Tim Williams, an engineering contractor from Ucluelet; (Centre, left to right) Allison Timmermans, Reg Payne and Jessica Hutchinson with Clayoquot Forest Environmental Ltd. in Ucluelet; (Bottom) Glenn Vezina, lisaak's new quality control supervisor from the Ucluelet First Nation.

1994

Joint management between the Province and Nuu-chah-nulth over their traditional territory is granted through the Central Region Board. Meetings between MacMillan Bloedel and five First Nations are held about a forestry joint venture.

1995

The Scientific Panel completes a series of groundbreaking reports that described how to manage the forests in Clayoquot Sound sustainably.

1996

MacMillan Bloedel and the First Nations in Clayoquot Sound negotiate to form a joint venture based on a shared commitment to achieving change.

1997

Ma-Mook Natural Resources Ltd. is founded to represent the economic interests of the five Central Region First Nations.

1998

MacMillan Bloedel and Ma-Mook jointly establish lisaak Natural Resources Ltd. lisaak (E-sock) means "respect" in the Nuu-chah-nulth language.



1 PROTECTED VIEW-SCAPES
 lisaak works hard to protect aesthetic values and view-scapes for tourism and recreation. About 27,000 m³ of timber was selectively harvested from this mountainside in Warn Bay. No high-grading of cedar occurred. The photo shows that the mountain's visual quality was not damaged.



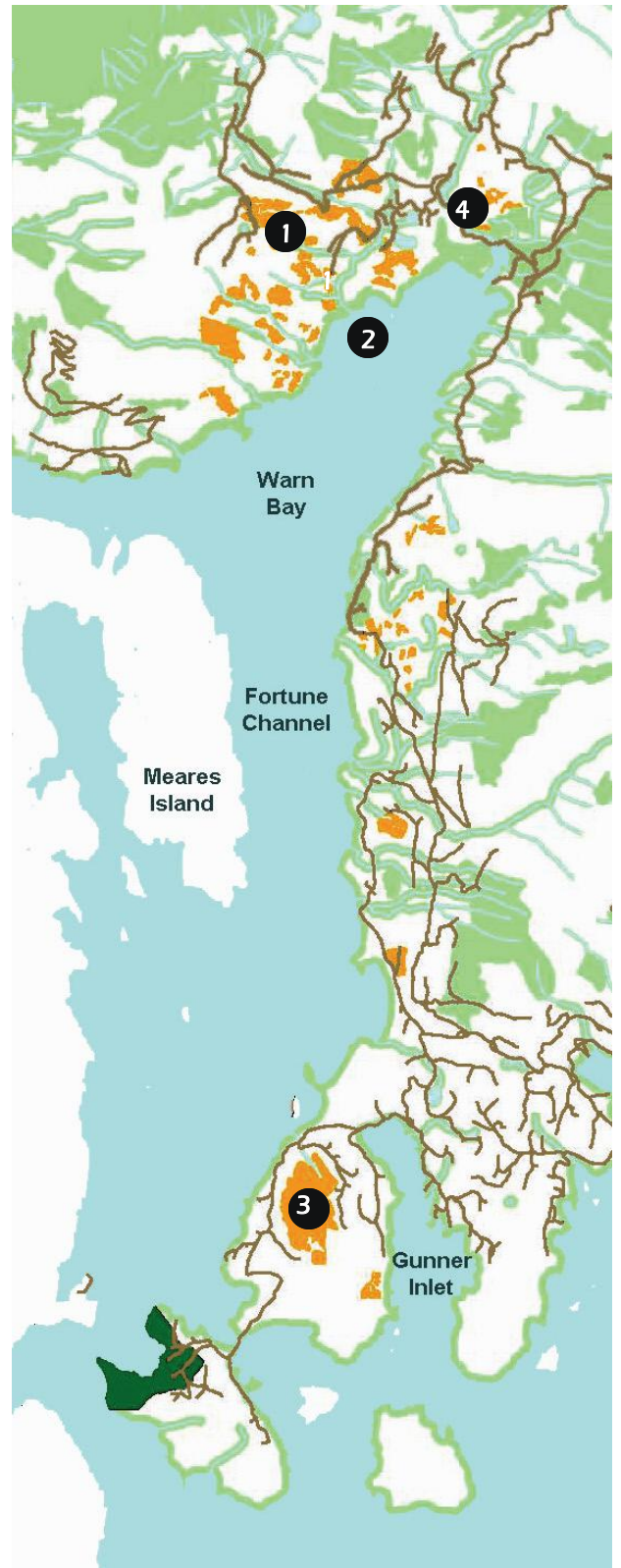
2 INNOVATIVE PRACTICES
 lisaak conducted helicopter operations which dropped timber directly onto a barge in Warn Bay in order to limit bark and debris in the ocean. The heli-operation also eliminated the need for roads in highly sensitive rainforest habitat.



3 SELECTIVE HARVESTING
 lisaak harvests small openings (never more than two tree lengths wide) in order to minimize its environmental impact and to maintain the integrity of the rainforest ecosystem. The photo shows 40% retention in a patch cut above Gunner Inlet.



4 NO HIGH-GRADING CEDAR
 lisaak harvests a selection of trees whose species mix, size and age reflects the natural profile of the rainforest ecosystem. The photo shows Mike Richardson, lisaak's operations manager, pointing to a large, old-growth cedar left standing in a variable retention cut block.



1999	2000	2001	2005	2006	2007
Agreement is signed between lisaak, Greenpeace, Natural Resources Canada, Environmental Action Council, Sierra Club of B.C., and the Western Canada Wilderness Committee. MacMillan Bloedel Ltd. is sold to Weyerhaeuser.	lisaak begins its first logging operations and becomes certified according to Forest Stewardship Council standards.	Ecotrust Canada provides lisaak with a start-up loan.	The Central Region First Nations, advised by Ecotrust Canada, purchase Weyerhaeuser's stake in lisaak and become the sole owner.	Ecotrust Canada, with its partner Triumph Timber, signs a contract to manage lisaak and implement a turnaround strategy for the company.	lisaak has a record year in terms of local jobs, revenue and environmental performance.

RESPECTING THE BOTTOM LINE

lisaak had a remarkable year financially. Ecotrust Canada, its management contractor, was able to turn around the company, and position it as a financially viable business going forward. lisaak maintained a steady cash flow and posted a significant profit in 2007.

The company prudently invested \$1.75 million in forest planning, engineering and road construction, which allowed it to take advantage of strong log prices in late 2006 and 2007. In addition, lisaak regained its FSC certification and found reliable, steady customers who paid top dollar for its FSC-certified logs. (See Chart: lisaak vs. B.C. Coastal Average Log Prices.) Roughly 40 percent of lisaak's wood was sold to FSC-certified mills and this number is set to increase next year.

» lisaak has been tapping emerging 'green' markets with its FSC certification «

— Mike Vitt, General Manager of lisaak and Ecotrust Canada Forestry Manager

"These preferred log buyers have been key to our success," says Mike Vitt, lisaak General Manager and Ecotrust Canada Forestry Manager. "FSC certification is emerging as extremely valuable in opening new markets for lisaak's wood."

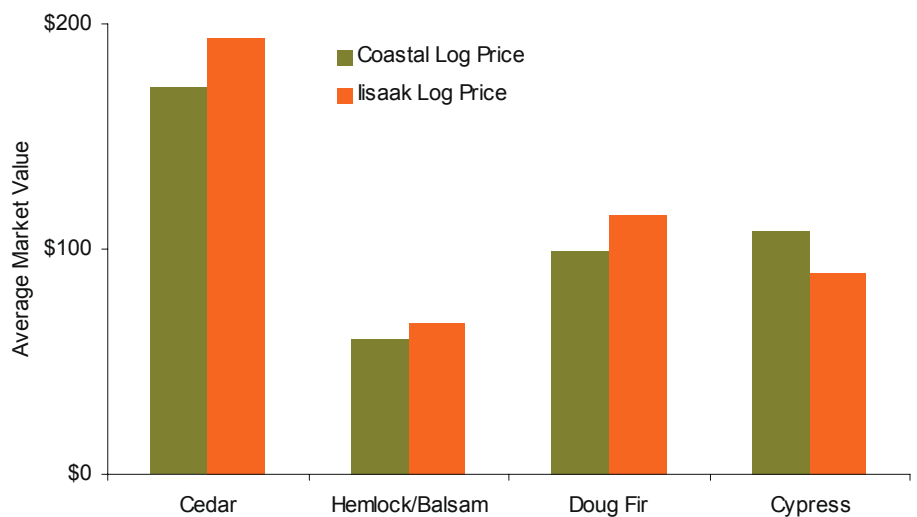
lisaak is well positioned going into 2008, which is forecasted to be a challenging year. By September 2007, log prices for all tree species, including cedar, began to decline. The rapid downturn in the U.S. housing market and the high value of the Canadian dollar were the primary causes of the decline. However, lisaak's strong relationships with customers, preferred treatment in FSC markets, and the management team's business expertise will help it weather any downturn.

The Central Region First Nations own one of the most remarkable businesses in the forestry industry today. lisaak practices the highest form of ecosystem-based forestry on the B.C. coast, produces good jobs for the communities, and makes money doing it. That's lisaak's triple-bottom line: people, place and profit.



PHOTOS: lisaak wood is being sold to Nagaard sawmill in Port Alberni (top) and Longhouse Trading in Coombs (above) for value added processing. Both mills have FSC chain-of-custody certification.

CHART: lisaak vs. B.C. Coastal Average Log Prices



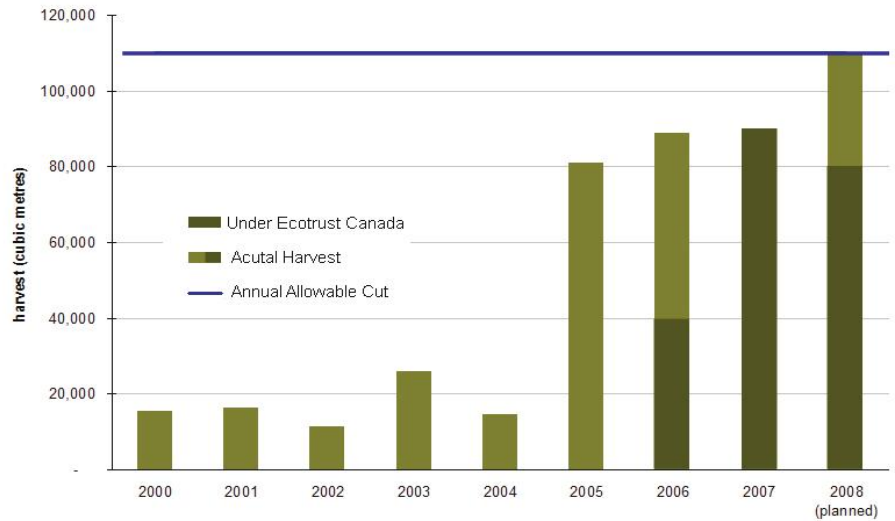
SOURCE: lisaak Forest Resources and Coast Selling Price System, Average Log Prices, Revenue Branch, B.C. Ministry of Forest and Range. Average log prices may not reflect the same grade mix as lisaak logs.

2008 OUTLOOK

lisaak will wrap up its forestry operations in the Warn Bay/Gunner Inlet area east of Meares Island early in the new year. Forestry operations will then move to the Tranquil Creek, Kennedy Flats and Beddingfield areas of Clayoquot Sound in 2008. lisaak expects to harvest about 110,000 m³ in 2008.

Ecotrust Canada, lisaak's management contractor, has also begun to explore the emerging market of forestry carbon credits, in which companies emitting greenhouse gases purchase the carbon sequestered in trees to offset their carbon footprint. This could potentially be an exciting new revenue source.

CHART: lisaak Annual Harvest, Clayoquot Sound (TFL 57)



MANAGEMENT TEAM

In November 2006, lisaak signed a contract that handed over management of the company to Ecotrust Canada and its partner Triumph Timber. The objective of the new management team is to improve the financial, social and environmental performance of lisaak, giving it a strong foundation for its future operations.

Ecotrust Canada is a conservation and community economic development organization whose purpose is to build the conservation economy. It has thirteen years experience working with First Nations and communities in Clayoquot Sound on fisheries, shellfish, forestry, tourism, GIS and planning projects. Ecotrust Canada has provided lisaak with business

financing and strategic advice over the years, and is a leader in helping small forestry operators attain FSC certification.

Triumph Timber, based in Prince Rupert, is a forestry operator with experience in turnarounds, including taking over West Fraser's failing North Coast forest license in 2000. Triumph has made First Nation employment a priority and has successfully increased the number of First Nation employees throughout its business. In addition, Triumph worked with the Gitga'at Nation to develop and implement ecosystem-based forestry in their territory.

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Wood with respect



**Triumph
Timber**