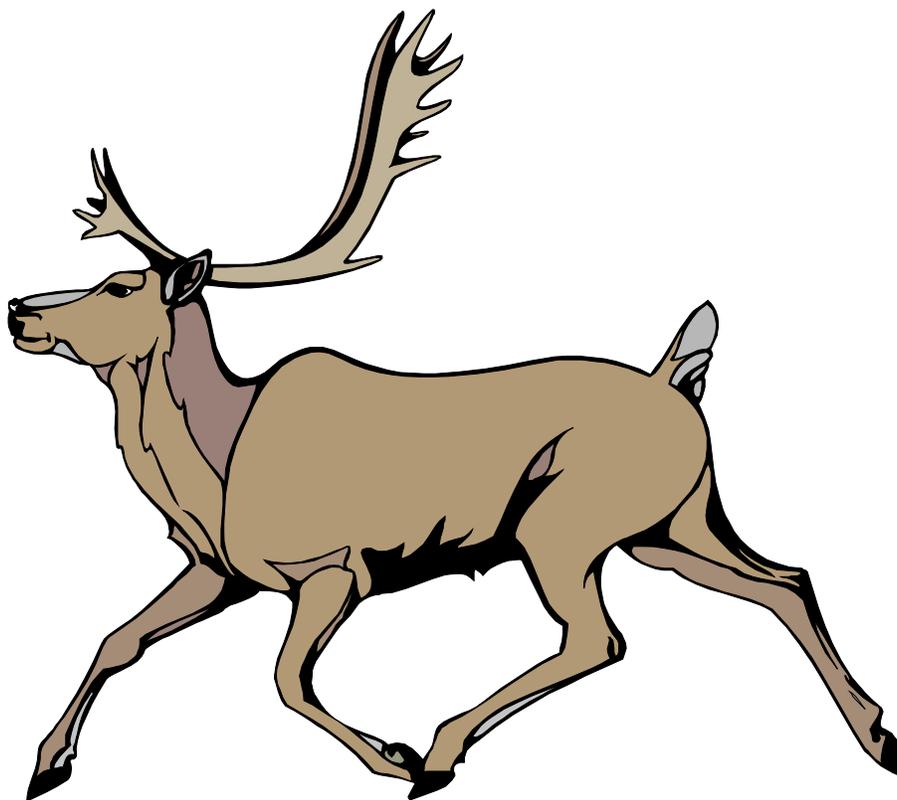


# *Southampton Island Caribou Harvest*

## *Y2001 Business Plan*



Prepared By:

July, 2000

## **Table of Contents**

<b>1.0 Introduction</b>	<b>1</b>
<b>2.0 Background</b>	<b>1</b>
<b>3.0 Harvest Operation</b>	<b>2</b>
<b>3.1 Camp Location</b>	<b>2</b>
<b>3.2 Management</b>	<b>2</b>
<b>3.3 Local Benefits</b>	<b>3</b>
<b>4.0 Current Status</b>	<b>3</b>
<b>4.1 Market</b>	<b>3</b>
<b>4.2 D6 Cat</b>	<b>4</b>
<b>4.3 Abattoir</b>	<b>4</b>
<b>4.4 Licenses &amp; Approvals</b>	<b>4</b>
<b>4.5 Supply Requirements/Sealift</b>	<b>5</b>
<b>5.0 Financial</b>	<b>6</b>
<b>Projected Income Statement – Y2001 Harvest</b>	<b>7</b>
<b>Notes to Income Statement</b>	<b>8</b>
<b>SMC Cash Flow - Y2001</b>	<b>9</b>
<b>6.0 Recommendations</b>	<b>10</b>

# Southampton Island Caribou Harvest Y2000 Business Plan

## 1.0 Introduction

This business plan has been prepared by \_\_\_\_\_ for the \_\_\_\_\_ The data and descriptive text presented in the sections that follow reflect the situation respecting market, price, equipment, etc. for a Y2001 harvest as at July, 2000.

## 2.0 Background

An export grade (Agriculture Canada provisionally certified) caribou harvest has occurred in each year since 1995. The harvest was initiated primarily as a herd management initiative to control the population growth of the Southampton Island Caribou herd. Since its inception, the harvest has gained recognition for its contribution to the local economy of Coral Harbour through employment, supply purchases and related benefits. Further, the harvest operation has gained the respect of Agriculture Canada staff and management.

Initially, the GNWT was heavily involved in coordinating the harvest, establishing a corporate entity, \_\_\_\_\_, owned by the \_\_\_\_\_ and financing asset acquisition including a portable abattoir and related equipment. In 1996, \_\_\_\_\_, currently the president of the \_\_\_\_\_, was appointed to manage the harvest operation under \_\_\_\_\_. \_\_\_\_\_ has successfully managed the harvest since 1996 and in so doing has greatly increased the level of local employment and benefits derived from the harvest.

In April of 1998, \_\_\_\_\_ and the \_\_\_\_\_ began discussing the possibility of privatizing the harvest operation. A Memorandum of Agreement (“MOA”) between the \_\_\_\_\_ and the \_\_\_\_\_ was executed in November, 1998. This Agreement sets out the responsibilities and understandings respecting the harvest operation (e.g. 5,000 commercial tags available annually) and formed the basis for the \_\_\_\_\_ to operate the harvest for an initial 2 year term (1999 – Y2000). In June, 2000, the MOA between the \_\_\_\_\_ and the \_\_\_\_\_ was renewed for a further 2 year term (2001 – 2002).

To coincide with the renewed MOA timeframe, a 2 year Purchase Agreement between the \_\_\_\_\_ and \_\_\_\_\_ (“\_\_\_\_\_”) is under negotiation and it is anticipated that the harvest volume will be 120,000 lbs. in Y2001 with an option of up to 160,000 lbs. in Y2002 and that the Y2001 price will be at least \$2.50/lb. and possibly \$2.55/lb. FOB Coral Harbour.

Although the export grade harvest has received GNWT assistance in each year since 1995, the level of assistance required has decreased as the harvest operation became more efficient and local expertise developed. A summary of key harvest statistics is presented below. In addition, summary reports on each harvest are available under separate cover.

YEAR	#	lbs.	PRICE	SALES
<b>1995</b>	2,356	120,000	2.85 FOB Edmonton	\$342,000
<b>1996</b>	1,972	106,000	3.05 FOB Mississauga	\$326,209
<b>1997</b>	3,365	175,341	3.20 FOB Mississauga	\$561,091
<b>1998</b>	2,956	182,000	3.45 FOB Mississauga	\$627,900
<b>1999</b>	1,187	78,699	2.50 FOB Coral Harbour	\$196,747
<b>2000</b>	2,099	121,594	2.50 FOB Coral Harbour	\$303,985
<b>2001 (projected)</b>	2,100	120,000	2.50 FOB Coral Harbour	\$300,000

### **3.0 Harvest Operation**

The harvest operation typically begins in mid January with the set-up of the portable abattoir and camp facilities and extends through the first or second week in April. Once operational, hunters, travelling by snowmobile, range up to 20 miles from the camp returning several times a day with animals for processing. At the kill site, the animals are bled by the hunter prior to transport. Once delivered to the abattoir, the animals are gutted, skinned and cut into a streamlined carcass form. As well, on-site Agriculture Canada inspection staff provisionally certify each carcass prior to it being packaged for shipment.

Through the course of the harvest season, streamlined carcasses are packaged in combo bins that for the past four harvests have been transported to the Coral Harbour airport on a skid pulled by a D6 Cat where they are stockpiled prior to being airlifted, via NWT's C-130 Hercules, to either Rankin Inlet or the railhead at Churchill, MB. From Churchill the product is transported by rail to Thompson, MB and from there by refrigerated truck to its final destination.

Air freighting arrangements are coordinated with —, who utilize the backhaul leg of each of the 3 to 5 loads to re-supply several of their outlets. This arrangement results in significant cost savings to the transportation component of the caribou harvest.

#### **3.1 Camp Location**

To have an effect on the Southampton Island caribou population, one of the goals of the harvest operation is to harvest a relatively high percentage of females – on the order of 70% female is a nominal target. Camp and abattoir location is critical to achieving this male to female ratio.

There are two primary camp location options:

- a site approximately 40 miles to the east of Coral Harbour; and
- a site approximately 30 miles to the west of Coral Harbour across Kirchoffer River.

Prior experience has shown that hunting success typically declines after approximately 2,200 to 2,500 animals have been harvested. At that point, economic considerations suggest that a move to a second camp location, likely closer to Coral Harbour, may be warranted. Further, this second location, if needed, may not have the same high percentage of females available as are predicted for the two primary locations identified above. It is anticipated that a move would only occur if :

- more than 120,000 lbs. of meat has been sold;
- hunting success dropped off significantly; and if
- snow conditions and temperatures allow.

#### **3.2 Management**

The abattoir operation is project managed by Mr.—whose operational experience is employed to ensure that all local abattoir workers are adequately trained and that the abattoir operation is conducted efficiently and in accordance with Agriculture Canada regulations and guidelines. Mr. — has project managed the abattoir operation since 1996 and in so doing he has been the primary point of contact with Agriculture Canada inspection staff. It is anticipated that —services would once again be utilized for the Y2001 harvest.

Overall management responsibilities for the harvest fall to —, President of the —, and to Mr. —, Vice President of the —. Additionally, Mr. —, also a partner in the —, is responsible for all

aspects of camp and abattoir maintenance. Each of these individuals have been involved in managing the harvest since 1996.

Because of the continuity of the harvest management team, operational difficulties that occurred in the earlier years have largely been overcome. As well, the experience of the team provides for quick and decisive action when problems or difficulties arise.

### 3.3 Local Benefits

From its inception, the Southampton Island commercial caribou harvest has been a key element in the overall herd management strategy employed by the GNWT Department of Resources, Wildlife and Economic Development – now the Department of Sustainable Development of the Nunavut Government. Without an annual cull of the caribou population, the health and overall integrity of the herd would be jeopardized which in turn would have a devastating impact on the community of Coral Harbour.

In addition to maintaining the health of the Southampton Island caribou herd, the export grade harvest has the potential to inject as much as \$266,000 directly into the local economy in the form of wages and benefits as outlined in tabular form below (basis 200,000 lb. harvest).

POSITION	NUMBER	RATE	TOTAL
Abattoir (Category A)	9	\$6,000	\$54,000
Abattoir (Category B)	9	\$5,000	\$45,000
Assist Proj Manager	1	\$8,000	\$8,000
Camp Attendant	2	\$5,000	\$10,000
Cook/Kitchen	2	\$9,990	\$19,980
Mechanical Foreman	1	\$8,500	\$8,500
Mob/Demob Foreman	1	\$5,400	\$5,400
Mob/Demob	6	\$4,250	\$25,500
Hunters	6	N/A	\$48,400
Cat Operator	1	\$6,000	\$6,000
Casual	N/A	N/A	\$10,000
Management	2	\$10,000	\$20,000
Administration	1	\$5,800	\$5,800
<b>Total</b>	<b>41</b>		<b>\$266,580</b>

In addition to direct employment benefits, the harvest spends on the order of \$60,000 locally for equipment rentals, hotels, supplies, fuel, etc. The overall importance of the caribou harvest to the community of Coral Harbour can not readily be overstated.

## 4.0 Current Status

In the sections that follow critical issues in respect of the Y2001 harvest are addressed and where solutions have not as yet been achieved, current status and time lines for addressing same are identified.

### 4.1 Market

From its inception through the 1998 harvest, the Southampton Island caribou harvest enjoyed the position of being the only federally certified harvest in North America. The limited supply of this high quality product allowed for an steady increase in the price paid for caribou to the point where caribou commanded a higher price than any other game meat. However, in 1999, that

situation changed with the emergence of a significant commercial harvest in Northern Quebec and thus the attendant risk to price stability as product volume increases.

For the 2001 harvest, a sale of 120,000 lbs. to — has been secured and finalization of contractual arrangements is pending. However, this level of harvest is not profitable for — nor is this level of harvest satisfactory from a herd management perspective and thus, additional buyers for up to 80,000 lbs. of meat need to be pursued – past experience suggests that securing additional buyers on satisfactory financial terms may be difficult.

The specific terms and conditions of any sales agreement for caribou are critical to —'s ability to finance the harvest operation. To this end and based on the experience, both positive and negative, gained over several years of operation the following contractual terms should be sought:

- Sales should be FOB Coral Harbour at a price of not less than \$2.50/lb.;
- All sales should be secured via letters of credit or other suitable instrument; and
- Payment for product would ideally be upon delivery.

Even with fully secured payment arrangements there may still remain a financing issue. In the past, the GNWT has provided a government guarantee to the financial institution financing the harvest. Some form of guarantee over and above the security provided via a sales agreement may still be necessary as financial institutions may remain reluctant to finance the harvest of caribou “on-the-hoof”.

#### **4.2 D6 Cat**

In the Fall of 1999, the D6 Cat, which has become a critical piece of equipment to the harvest operation, was tendered off by the Hamlet of —. —was successful in obtaining the D6 and are committed to making the D6 available, for a fee, to the harvest operation.

#### **4.3 Abattoir**

At the conclusion of the Y2000 harvest, the abattoir tent was declared unfit for further service by —Inspections staff. A replacement abattoir is being constructed at a cost of approximately \$7,800 and will be ready for shipment to Coral Harbour on the annual sealift. This replacement abattoir will utilize a vinyl skin over a steel frame rather than canvas and thus, should prove more durable than the previous abattoir tent.

#### **4.4 Licenses & Approvals**

The permits and approvals required to prosecute a Y2001 caribou harvest and the status of the application process as at July, 2000 are as follows:

- **Land Use Permit/NIRB Screening:** A Land Use Permit will be required for the Y2001 harvest and application for same should be made by October, 2000. Since the nature of the harvest operation remains unchanged from previous years it is not anticipated that the land use permitting process will trigger another NIRB screening;
- **Commercial Wildlife License:** Application to be submitted October, 2000;
- **Nunavut Water Board:** In Y2000 a 2 year water license was issued. However, a condition of the license is that a spill contingency plan be submitted prior to commencement of the Y2001.

No delays or problems are anticipated as far as obtaining the permits and approvals necessary for the Y2001 harvest to proceed on schedule.

#### **4.5 Supply Requirements/Sealift**

Below, supply requirements including a replacement abattoir and the cost of same for a Y2001 harvest are identified.

<b>Ammunition</b>	<b>Amount Required</b>	<b>Price per unit</b>	<b>Total</b>
22-250	1200	\$ 14.00	\$ 16,800.00
<b>Propane</b>	3	\$ 250.00	\$ 750.00
<b>Abattoir Supplies</b>			
Cotton gloves/doz	50	\$ 5.50	\$ 275.00
Size 10 rubber gloves/doz	20	\$ 9.95	\$ 199.00
Scabbards	12	\$ 5.95	\$ 71.40
Stiff narrow boning	12	\$ 12.90	\$ 154.80
10" Steel smooth	6	\$ 20.00	\$ 120.00
Breaking knife stiff	8	\$ 24.00	\$ 192.00
Sheep skinner	6	\$ 18.95	\$ 113.70
Size 7 rubber gloves/doz	20	\$ 9.95	\$ 199.00
Sleeves/doz	10	\$ 4.00	\$ 40.00
Disposable coveralls	500	\$ 7.00	\$ 3,500.00
<b>Packaging supplies</b>			
24X36 bags/m	6	\$ 414.70	\$ 2,488.20
20X24/m	2	\$ 230.40	\$ 460.80
Poly liners 45x43x112	200	\$ 3.00	\$ 600.00
10# meat carton	200	\$ 0.65	\$ 130.00
Carton Liners/roll	1	\$ 25.00	\$ 25.00
Tyers	6	\$ 7.95	\$ 47.70
Wire ties 7"	3	\$ 35.00	\$ 93.00
Combo Bins	200	\$ 18.00	\$ 3,600.00
<b>Electrical</b>			
Female plugs	24	\$ 2.95	\$ 70.80
Male Plugs	24	\$ 2.95	\$ 70.80
Connectors	1	\$ 10.00	\$ 10.00
14/2 wire	2	\$ 30.00	\$ 60.00
500 watt halogen bulbs	20	\$ 5.00	\$ 100.00
<b>Snowmobiles</b>			
4l oil	120	\$ 15.57	\$ 1,868.40
Synthetic Oil 1 litre	120	\$ 6.52	\$ 782.40
<b>Kitchen Supplies</b>			
100 cup Coffee urn	1	\$ 100.00	\$ 100.00
Forks	36	\$ 3.00	\$ 108.00
Teaspoons	36	\$ 3.00	\$ 108.00
Steakknives	24	\$ 3.00	\$ 72.00
Table Spoons	24	\$ 3.00	\$ 72.00
Paper towels	15	\$ 25.75	\$ 386.25
Toilet tissue	6	\$ 25.50	\$ 153.00
Paper Plates 8"	5	\$ 49.95	\$ 249.75
Styrofoam cups	8	\$ 15.50	\$ 124.00
Garbage bags 26X36	2	\$ 19.50	\$ 39.00
Garbage bags 30X38	2	\$ 23.50	\$ 47.00
<b>Non Perishable Food</b>			\$ 14,000.00
<b>Abattoir Tent</b>			\$ 7,798.15
<b>Total</b>			<b>\$ 56,079.15</b>

## **5.0 Financial**

In previous years, the caribou harvest was chronically under-financed from a cash flow perspective. Typically, a combination of government guarantees (\$200,000) and a relatively low Letter of Credit (\$150,000 - \$170,000) were sufficient to initiate the harvest but not to meet all the cash flow requirements arising through completion of the harvest. As a result, suppliers experienced lengthy delays in payment, additional last minute financing had to be secured. By all accounts this situation would have to be corrected for the harvest to be continued. Arrangements to finance the Y2000 harvest largely overcame this cash flow issue and it is anticipated that similar arrangements between— and — will be utilized for the 120,000 lb. portion of the Y2001 harvest.

In 1998 and again in Y2000, the harvest operation stayed within its projected budget and concluded in an essentially break even cash position. The ability of management to adhere to a budget given the complexity of the harvest operation is an acknowledgement of the level of expertise that has developed over the years. Given the relative success of the 1998 operation and the intention of management to operate the harvest on the same basis as 1998 and Y2000 – note that the limited harvest prosecuted in 1999 is considered a poor reference point for comparison purposes -- there is a high probability that the harvest will again succeed. From an operational perspective, manageable risks include equipment failure, unexpected herd movements, etc. – these types of problems have been addressed in the past. Risks that are more difficult to manage arise primarily from vagaries in weather such as storms or abnormally high temperatures – again, these types of difficulties have been addressed in the past.

To finance the Y2001 Southampton Island caribou harvest operation, \$150,000 or more in debt financing will be required. Available security for this cash flow requirement should be as was arranged for the Y2000 harvest where — guaranteed —'s loan and undertook to make payments directly and on behalf of —.

A Y2001 income statement and projected cash flow are presented below. Of significance is the fact that the a \$30,760 operational loss is projected for a harvest volume of 120,000 lbs. To offset this projected deficit, a \$25,000 application for financial assistance has been submitted to the — who administer the RDF Fund. Additionally, — is considering a \$0.05/lb. price increase which would net — \$6,000. Alternately, the harvest can be profitable at a higher volume and thus, additional sales need to be pursued.

**Projected Income Statement – Y2001 Harvest**

	120k lbs.	160k lbs.
<b>Opening Cash</b>	-5,500	-5,500
<b>Revenue</b>		
Contributions	75,000	75,000
Sales	300,000	400,000
GST Refund	3,500	4,500
Backhauls		
Interest and Misc.	1,000	2,000
<b>Cash &amp; Revenue</b>	<b>374,000</b>	<b>476,000</b>
<b>Operating Costs</b>		
Capital Purchases	7,800	7,800
Supplies	42,000	42,000
Packaging Materials	7,500	7,500
Food	20,000	23,000
Fuel & Oil	28,000	35,000
Inspection Fees	6,500	8,000
Salaries and Benefits (Net)	77,000	100,000
Project Manager/Consulting	26,000	26,000
Mobilization/Demobilization	20,000	20,000
Depreciation	1,560	1,560
Fuel Hauling	3,000	3,500
Cat Rental/Repair	15,000	15,000
Rentals	10,000	10,000
Repairs & Maintenance	15,000	20,000
Travel & Accomodations	12,000	16,000
Freight (Supplies)	15,000	15,000
Miscellaneous	10,000	10,000
<b>Total Operating</b>	<b>316,360</b>	<b>360,360</b>
<b>Overhead</b>		
Legal/Accounting	5,000	5,000
Management	25,000	25,000
Administration	5,000	5,000
Office Supply	700	700
Communications	5,000	5,000
Revenue Canada	36,200	45,000
W.C.B	8,000	8,000
Interest & Bank Charges	1,000	1,000
Liability Insurance	2,500	2,500
<b>Total Overhead</b>	<b>88,400</b>	<b>97,200</b>
<b>Total Expenses</b>	<b>404,760</b>	<b>457,560</b>
<b>Cash Gain/Deficit</b>	<b>-30,760</b>	18,440

## ***Notes to Income Statement***

### **Revenue**

- Opening cash deficit accounts for cash on hand against unpaid —overtime invoices and 1999/2000 accounting fees.
- Contributions by the government of Nunavut. Additional contributions from — in the amount of \$25,000 are anticipated.
- Revenues from sales are calculated on the base price of \$2.50 FOB Coral Harbour and a 120,000 lb. volume.
- GST refund is largely accrued on freight & fuel costs.
- No backhaul revenues will accrue with an FOB Coral Harbour purchase arrangement.

### **Operating Costs**

- Y2001 capital purchases budget is for a replacement abattoir.
- Tag costs are in accordance with the MOA between the — and the — HTO.
- The relatively low freight costs result from supply positioning via sealift rather than charter aircraft and an FOB Coral Harbour purchase point.

### **Overhead**

- Reduced management costs accrue because the use of outside expertise will be held to a minimum.

### SMC Cash Flow – Y2001

	July/Dec 2000	Jan '01	Feb	March	April	May	June	July	Aug	Sept	Oct/Dec	Total
<b>Opening Cash</b>	-5,500											-5,500
<b>Revenue</b>												
Contributions	75,000											75,000
KMF		150,000							20,000	20,000	110,000	300,000
Other Sales				1,000								1,000
Loan Proceeds		150,000										150,000
GST Refund	2,500			1,000								3,500
Backhauls												0
<b>Cash &amp; Revenue</b>	72,000	300,000	0	2,000	0	0	0	0	20,000	20,000	110,000	<b>524,000</b>
<b>Operating Costs</b>												
Capital Purchases	7,800											7,800
Supplies	39,000		1,500	1,500								42,000
Packaging Materials	7,500											7,500
Food	5,000	12,000	2,000	1,000								20,000
Fuel & Oil	2,600	1,400	12,000	12,000								28,000
Tags												0
Inspection Fees				6,500								6,500
Contract Fees			38,500	38,500								77,000
Project Manager/Consulting	5,000		12,000	9,000								26,000
Mobile/Demobilize			10,000	10,000								20,000
Depreciation						1,560						1,560
Fuel Hauling			2,000	1,000								3,000
Cat Rental/Repair		5,000	5,000	5,000								15,000
Rentals			5,000	5,000								10,000
Repairs & Maintenance		5,000	5,000	5,000								15,000
Travel & Accomodations		10,000		2,000								12,000
Freight	10,000		4,000	1,000								15,000
Loan Payments									20,000	20,000	110,000	150,000
Miscellaneous		3,000	3,500	3,500								10,000
<b>Total Operating</b>	76,900	36,400	100,500	101,000	0	1,560	0	0	20,000	20,000	110,000	<b>466,360</b>
<b>Overhead</b>												
Legal/Accounting							5,000					5,000
Management		4,000	4,000	4,000	4,000	2,500	1,500			1,500	3,500	25,000
Administration		1,000	1,200	1,600	1,200							5,000
Office Supply		100	200				200			200		700
Communications	200	500	500	500	2,500	100	100	100	100	100	300	5,000
Revenue Canada			18,100	18,100								36,200
W.C.B				2,000			2,000				4,000	8,000
Interest & Bank Charges	100	100	100	100	100	50	50	50	50	100	200	1,000
Liability Insurance		2,500										2,500
<b>Total Overhead</b>	300	8,200	24,100	26,300	7,800	2,650	8,850	150	150	1,900	8,000	<b>88,400</b>
<b>Total Expenses</b>	77,200	44,600	124,600	127,300	7,800	4,210	8,850	150	20,150	21,900	118,000	<b>554,760</b>
<b>Cash Gain/Deficit</b>	-5,200	255,400	-124,600	-125,300	-7,800	-4,210	-8,850	-150	-150	-1,900	-8,000	-30,760
<b>Monthly Balance</b>	-5,200	250,200	125,600	300	-7,500	-11,710	-20,560	-20,710	-20,860	-22,760	-30,760	



## **6.0 Recommendations**

- A. Conclude a sales agreement with — for 120,000 lbs. and pursue other buyers for an additional 40,000 to 80,000 lbs.
- B. In the event that additional sales can not be secured, additional contributions and/or an increase in the product price will need to be arranged to offset the projected operational deficit.
- C. If suitable arrangements can not be made to offset the projected deficit, cancel the Y2001 harvest.