



FeatherStone Rock Products Inc.

Business Plan

Confidential

January 31, 2010



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A. Executive Summary

The Company

FeatherStone Rock Products Inc. (“FeatherStone”), a Canada corporation, was incorporated on January 11, 2007 and is controlled by Architectural Composites Inc. (“ACI”), an Alberta corporation. FeatherStone was incorporated to commercialize the FeatherStone technologies developed and licensed by ACI.

The FeatherStone technologies encompass a new generation in lightweight decorative rock and facing materials. Using the fast setting FeatherStone binder technology, FeatherStone produces durable, high strength, lightweight panels and facing materials for use as decorative facing products for the highly profitable commercial and residential renovation and construction markets.

FeatherStone commenced commercial operations in July 2007 with a manufacturing facility and a corporate-owned store in the Edmonton Area. The business plan provides for the licensing of the FeatherStone technologies and business systems to franchised operations throughout Canada and the United States beginning in 2008.

Mission Statement

FeatherStone will be a leader in the decorative stone market in North America by providing products that are attractive, durable and consistently of the highest quality. This market leadership will be achieved through a business culture that embodies honesty, integrity, commitment, innovation and an environmental conscience.

Management

FeatherStone is controlled by ACI, the principals of which are Doug Jackson, Mike Mabey and Randy Simpson. Each of these individuals will participate in the management and operation of FeatherStone. Doug has many years of experience as an owner and operator of business. Mike has been actively involved in product development for more than 25 years and has several patents registered and pending. Randy has been a lawyer for more than 20 years and has extensive experience in business as an owner, manager and counsel and most recently in the field of franchising.

The Market

The interior décor business in just the United States has been forecast to grow to \$8.5 billion by 2010. The exterior décor business is also expected to continue with strong growth. The market for “cultured” decorative rock products will experience additional



growth because of a chronic shortage of qualified stone masons who would otherwise “handcraft” cut stone or flag stone fascia and the cost of both real stone and its installation.

Industry Participants

At this time, there is no one using a rapid setting, lightweight composite similar to FeatherStone in this market. There is also an absence of producers who are focusing their efforts on producing non-combustible interior architectural facing materials.

There are two or three small producers in the Greater Edmonton Area producing stone veneers using traditional Portland cement-based formulas. Most metropolitan areas will have two or three such small producers. As well, there are typically local distributors for national or regional producers such as Owens-Corning’s Cultured Stone™, Coronado Stone Products and Eldorado Stone. These stone products are all offered in a limited variety of colors and styles, are heavier than FeatherStone and more labour intensive to make and install.

Stonetile Canada Ltd. offers a mechanically mounted cast product that it markets as a “pre-cast siding”. The product is offered in a very limited number of styles and colours.

There are also companies that produce stone-look veneers from foamed plastic and fiberglass. While these products are lightweight, they are usually highly combustible, limiting their use indoors and their durability in severe climates and high traffic areas.

Competitive Advantage

The FeatherStone product line has several competitive advantages including non-combustibility and lighter weight. Because of the fast setting nature of the product, fewer molds and less shop space are required to produce the product. Furthermore, the product line is more flexible allowing customers to choose colors and finishes to satisfy their style and design preferences.

These competitive advantages allow the business to be readily duplicated, lending itself to local producers in a franchise network rather than relying on large regional production facilities.

Profitability

Based on modest production and installation estimates, FeatherStone is forecast to show a small loss from operations in its first full year of operations, 2007-2008. The financial forecast indicates profits from product sales in the 2008-2009 and 2009-2010 years, which will be supplemented by revenues from licensing franchised outlets. Cash flow forecasts indicate profit margins in excess of 30% in these years.



B. Business Profile

FeatherStone Rock Products Inc. (“FeatherStone”), a Canada corporation, was incorporated on January 11, 2007 and is controlled by Architectural Composites Inc. (“ACI”), an Alberta corporation. FeatherStone can be contacted at:

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FeatherStone was incorporated to commercialize the FeatherStone technologies developed and licensed by ACI. FeatherStone technologies are protected by confidentiality agreements and/or by patents filed in Canada and the United States.

The FeatherStone technologies encompass a new generation in lightweight decorative rock and facing materials. Using the fast setting FeatherStone binder technology, FeatherStone produces durable, high strength, lightweight panels and facing materials for use as decorative facing products for the highly profitable commercial and residential renovation and construction markets. Most competitive products are either Portland cement-based, requiring costly molds and lengthy drying times, or EPS-based products, which are foamed plastic and generally unacceptable for interior use due to the flammable nature of the products.

FeatherStone’s business model consists of two distinct primary businesses: 1) the manufacture, sale and installation of FeatherStone rock products in the Edmonton area, and 2) the licensing of the FeatherStone business system. Since inception, the two businesses have been operated together. Beginning as early as the end of the 2007-2008 year, the Edmonton area operations will be transferred to a wholly-owned subsidiary and operated as a independent profit-center.

The wholly-owned subsidiary will be licensed by FeatherStone to conduct business as a franchise. This will permit FeatherStone to refine the business system and assess the appropriate size for a defined franchise territory. The captive franchise will be a model for future franchised locations and a test site for new products, technologies and equipment.

FeatherStone will focus its operations on developing the FeatherStone franchise network. This effort will include research and development of FeatherStone technologies, development of marketing materials, sourcing and blending proprietary FeatherStone raw materials, identifying and sourcing equipment for franchises, developing the FeatherStone franchise agreement, disclosure documents and operating manual, together with associated



documents required to market and license franchised businesses in Canada and the United States.

The business plan provides for the licensing of the FeatherStone technologies and business systems to franchised operations throughout Canada and the United States beginning in 2008.

A gallery of FeatherStone products is included as Appendix A.

Mission Statement

FeatherStone will become a leader in the decorative stone market in North America by providing products that are attractive, durable and consistently of the highest quality. This market leadership will be achieved through a business culture that embodies honesty, integrity, commitment, innovation and an environmental conscience.

Business Objectives

FeatherStone's first full year of operations will be focused on building product recognition and acceptance of the FeatherStone technologies in the marketplace and refining the FeatherStone business system.

The five year objectives for FeatherStone are:

1. To expand the business at a rate that is substantially greater than the nominal rate of growth in the construction market, based on the current shortage of skilled labour and the demand for non-combustible, ready-to-install decorative facing systems,
2. To make FeatherStone technologies the preferred alternative to stone, styrene, concrete and other decorative facing systems based on installed price, ease of installation, appearance and overall performance.
3. To grow FeatherStone to a network of more than 50 franchises in Canada and the United States by providing a proven business system for a product that is very much in demand.

FeatherStone's operations consist of two distinct primary businesses: 1) the operating business, conducted by a wholly-owned subsidiary of FeatherStone, and 2) the franchise business, conducted by FeatherStone. The operating business consists of local market sales, production and installation of finished FeatherStone products. The franchise business includes the development of national and international markets, the sale of franchises or development areas and the acquisition and supply of raw materials and equipment for licensed franchises.



In the initial year of operations ended August 31, 2007, the primary focus was on moving the FeatherStone products from prototype to production mode. During this period, formulas were refined, suppliers and markets identified, molds and accessories were developed, and products tested.

In the current fiscal year (2007-2008), the focus is on building the operating business (the model franchise). This is being accomplished through a multi-pronged marketing approach, including personal sales calls to builders and architects, the development of marketing collateral, a distinctive corporate website, building signage, and word of mouth.

It is forecast that the operating company will generate revenues of approximately \$500,000.00 on 49,000 square feet of FeatherStone products in 2007-2008. Sales will grow to approximately \$1,850,000.00 by the end of year three on 200,000 square feet of FeatherStone products. Based on forecast costs of sales and overhead expenses, the operating business should produce before tax profits of approximately \$450,000.00 for the 2008-2009 year and \$750,000.00 in the 2009-2010 year.

As the operating business is being developed, the FeatherStone business system is being refined and codified in the FeatherStone Operating Manual. As well, The FeatherStone Manufacturing and Distribution Agreement (Franchise Agreement) and a standard disclosure document template are being developed. FeatherStone plans to begin actively marketing franchise or area development opportunities in 2008. Initial interest in FeatherStone franchises has been through word of mouth and referrals.

FeatherStone's franchise network will grow to approximately 20 licensed franchises by the end of 2009-2010. The network is forecast to generate approximately \$600,000.00 in gross revenues and a before tax profit of \$285,000.00. Based on franchise territories of approximately 500,000 people, it is estimated that 51 franchises could be sold in Canada and approximately 660 in the United States.

C. Ownership and Management

Ownership

FeatherStone is controlled by Architectural Composites Inc., an Alberta company incorporated on October 29, 2005. The shareholders of Architectural Composites Inc. are Michael Mabey, Douglas Jackson and Randy Simpson. Architectural Composites Inc. owns the FeatherStone trademark and has an exclusive license to manufacture and promote the FeatherStone technologies. FeatherStone has paid a licensing fee and will be required to pay an ongoing royalty to ACI for the use of the FeatherStone trademark and the FeatherStone technologies.



Management Team

Currently, Randy Simpson, Mike Mabey and Doug Jackson constitute the management team for both businesses. This has been done to reduce costs and to permit the FeatherStone management team to analyze and refine the FeatherStone business system prior to licensing independent franchise locations. Randy Simpson serves as President of FeatherStone. Doug Jackson serves as the Vice-President, Operations and has taken primary responsibility for sales. Mike Mabey serves as the Vice-President, Research and Marketing, spending a significant portion of his time fine-tuning the FeatherStone products and moving the business from prototype development to production capacity.

Randy Simpson

Randy Simpson holds Bachelor of Commerce (Finance and Accounting) and Bachelor of Laws degrees from the University of Saskatchewan. He was admitted as a member of the Law Society of Saskatchewan in 1986 and the Law Society of Alberta in 1987. He has worked in private practice and served as Tax Counsel to both the Department of Finance in the Province of Saskatchewan and the Treasury Department in the Province of Alberta. From November 1994 to June 2000, Mr. Simpson was Vice-President of FMP Management Partners Ltd., an Edmonton, Alberta, Canada based management consulting and software development company. In July 2000, Mr. Simpson joined Intuit Canada Limited as Senior Manager, Business Services and Partner Relations. In September 2002, he joined Magnetsigns Advertising Inc. as Vice President, Corporate Services and General Counsel. Mr. Simpson was appointed a Director and President of Magnetsigns Corporation on November 15, 2002. During his tenure, the Magnetsigns group of companies grew from 39 franchise locations in Canada to more than 100 locations in Canada and the United States. Mr. Simpson joined with Mr. Mabey and Mr. Jackson in November 2006 to commercialize the FeatherStone technologies. Mr. Simpson will serve as a Director and President of FeatherStone.

Mike Mabey

Mike Mabey has been involved in marketing and new product development for more than 25 years. As a full time building materials consultant, he has been involved in the development of a large number of products from fire retardant coatings, with 4 US patents issued or pending, to lightweight mineral foam products which convert high volume waste such as fly ash and mine tailings into eco-friendly building materials. His experience also includes a number of years in sales and marketing including major account sales to architects, engineers and Provincial Government accounts for Xerox Corporation and other multinational companies. Mr. Mabey was instrumental in developing the products and processes, which form the basis for the FeatherStone business opportunity, and he will serve as a Director and Vice-President, Research and Development of FeatherStone.



Doug Jackson

Doug Jackson is the President of APS Alberta Inc., maintenance engineers, property and asset management. APS was organized in 1990 with a vision to provide improved warehousing, installation and management services to corporate partners. Major customers have included Canada Post Corporation and SNC Lavalin Profac. APS provides warehousing and distribution services through their Edmonton operations and provides installation, maintenance and property management services throughout Alberta, Northwest Territories and portions of British Columbia. Mr. Jackson believes in a hands-on approach to management and is involved in every aspect of APS' daily operations. Doug did undergraduate work at Brigham Young University in Business Management. He is a major investor in real estate in the Dominican Republic and established mining operations in Canada. Mr. Jackson will serve as a Director and Vice-President, Operations.

Professional Advisors

FeatherStone has appointed R. Derrick Colling Professional Corporation as Accountant for the corporation.

FeatherStone has placed bank accounts for the corporation with the Royal Bank of Canada.

D. Business Environment Analysis

History

While FeatherStone is newly incorporated, its controlling shareholder, ACI, has been active in the development and marketing of the FeatherStone technologies for more than two years. Decorative stones created using the FeatherStone technologies have been installed in a major commercial location in Edmonton, Alberta. The Empire Ballroom, formerly the Rum Jungle, in West Edmonton Mall installed more than 4,000 square feet of stone veneers using the FeatherStone technologies in a renovation completed in the Summer of 2007.

Industry Overview

An independent market research company forecasts that the interior décor business in the United States alone will grow to US \$8.5 billion by 2010. The company that wrote the research report was not affiliated with the any particular supplier, but had written it as an industry research report.

From the number of companies in the United States that are selling different molds and concrete cement forming systems, many of which have been in business for more than 10 years, it is realistic to believe that this market will continue to expand, especially given the shortage of skilled tradesmen in many areas. In today's market there is a real shortage of qualified tradesmen who would otherwise "hand-craft" cut stone or flag stone fascia from



raw materials shipped from a specialty stone supplier. In addition, the cost of wood is rising as demand for building materials and the shortage of timber continues to drive prices up. Furthermore, residential and commercial customers are demanding “custom” finishes on new and remodeled buildings.

Locally, there is a growing market for high-value homes and this market will continue to grow as the economic outlook for Alberta is very positive for the foreseeable future. In many subdivisions, architectural controls dictate the exterior finishes to be used and many require some brick or stone work.

Industry Position

There are currently four main variants in the marketplace. Consumers can hire a stonemason to install “hand-cut” stone. There are several local producers of concrete-based products and several nationally or regionally-distributed concrete based products, Stonetile markets its “cast siding” products nationally and one local manufacturer is licensed to produce a product based on plastic foam.

There are several suppliers of specialty stone products in Alberta; however, consumers must contract a stone mason to complete the installation. Skilled labour, and particularly stone masons, are in short supply in Alberta. This coupled with the high cost of obtaining and transporting real stone makes this alternative prohibitively expensive for most projects.

There are two or three small producers in the Greater Edmonton Area producing stone veneers using traditional Portland cement-based formulas. As well, there are local distributors for several national or regional producers such as Owens-Corning’s Cultured Stone™, Coronado Stone Products and Eldorado Stone. These stone products are all offered in a limited variety of colors and styles, are heavier than FeatherStone and more labour intensive to make and install. Both large and small producers are constrained by the weight and long setting times of normal Portland cement in the variety of products they can produce and installation alternatives.

Owens Corning produces the market leading product, marketed as “Cultured Stone™”. This product is produced in five basic motifs with approximately 5 colour schemes. Owens Corning produces the product using normal Portland cement and a lightweight aggregate, such as pumice. Cultured Stone™ is heavier than FeatherStone and is more labour intensive to install. The product sells in the Edmonton market for \$9.50-\$13.00 per square foot and installs for \$20.00-\$25.00 per square foot (labor and materials).

Stonetile Canada Ltd. offers a mechanically mounted cast product that it markets as a “pre-cast siding”. The product is offered in a very limited number of styles and colours and is significantly more expensive than other stone products.

EasyRock is a locally manufactured product made by casting a two component isocyanate-based, combustible plastic foam. While the product is very light and easy to install, it is



easily damaged and scuffmarks, scratches or chips will remove the texture and colour, making it difficult to maintain and repair. EasyRock, and other 'foamed plastic' moldings and decorative elements are highly combustible. An increasing number of fire codes require the use of non-combustible materials, which is restricting the use of such foamed plastic products for interior installations. EasyRock sells for approximately \$10.00 per square foot in the Edmonton market.

Risks

There are several factors that could affect the demand for our products. The Canadian and American construction industries are directly affected by economic conditions. There has been some softening in American home construction; however, demand will remain high in the U.S. Gulf Coast due to reconstruction and in the Midwest and Intermountain regions as people take profits from more expensive markets. As well, the economy in Western Canada is forecast to grow and remain strong over the next three to five years.

The 2005 hurricanes in the Southern US Gulf States have and will continue to put enormous pressure on the Portland cement industry. The effect is a dual edged sword. First, the Portland cement production capacity in the south has been dramatically curtailed or destroyed with the hurricanes and floods. Second, the demand for Portland cement concrete and related building materials in general will rise as the populace tries to rebuild homes, businesses and industry destroyed in the floods.

In addition, we see a trend towards "gated communities" which are built to cater to the ever-increasing numbers of "baby-boomers" who are cashing out of the large single-family units in favor of these adult lifestyle communities. These communities feature large areas with up-scale decorative finishes and amenities.

FeatherStone will address these market risks by offering competitively priced products of superior quality. We will track changes in consumer trends by maintaining strong relationships with our clients. Design and product changes will be made to meet the needs of the market. Small style changes are relatively inexpensive and easy to make.

Demand in the industry is highly cyclical. However, our flexible manufacturing system and the use of part time labor allows us to cost effectively modify production as needed.

The availability of labor in the local market is an issue for many businesses. The FeatherStone business model limits our exposure in that the operating business is not labour intensive and does not require a large number of skilled employees. Utilizing a franchising model allows FeatherStone to train owner-managers to do much of the work and keeps the business at a size that numerous employees are not required. An added benefit is that the business is small enough to remain customer focused, responding to the needs of its local customers rather than forcing customers to purchase from a limited inventory of products.



E. Marketing Plan

Target Market

FeatherStone's primary target market includes builder, developers and retro-fit construction in the commercial and hospitality markets as they strive to build with decorative and crowd pleasing décor to keep clientele coming to their venues, while still meeting the increasingly stringent fire codes and budget constraints. Businesses in the hospitality industry redecorate on average every 3-5 years.

A significant secondary market is in residential construction and renovation. Currently, consumers are restricted to purchasing what is produced. FeatherStone has the advantage of producing the type of decorative finish and in the colour that the consumer chooses. FeatherStone's proposed franchise network is well-suited to that market. Our licensees will be in the local markets and can quickly respond to market trends and local preferences or building code requirements.

Competitors

None of FeatherStone's known competitors uses a technology similar to FeatherStone's proprietary blend to produce decorative rock products. Alternatives to FeatherStone's products include quarried or hand-cut rock and decorative rock products from pre-cast or aerated concrete panels, or plastic formulations. It is unlikely that competitors will change their production methods given their investment and business culture.

Competitive Advantages

The FeatherStone product line has several competitive advantages including unique design and quality at a reasonable price. Customers can choose different colors and local finishes to satisfy their style and design preferences. The advantage of the rapid throughput and fast setting formulation is that we can mix relatively small batches with custom colours and still be competitive. In addition, the demand for numerous molds is substantially reduced. The large pre-casters are limited in the size of the production runs they can produce due to the large-scale batch equipment they use to make their process cost-effective.

Another advantage mentioned earlier, is the lighter overall weight of the finished panels. This attribute makes the finished products easier to handle and ship, which are two important attributes if we consider on-site installations and the potential to get into the home building centers for retail sales. As well, using our lightweight product, we have been able to create building panels of up to 8 square feet. We can produce building panels that can be installed in any weather using mechanical fasteners which can be installed much more quickly than loose stone.

FeatherStone technologies are protected by patents pending in the United States and Canada.



Furthermore, the FeatherStone trademark has been approved and advertised in Canada with registration expected in March 2008.

Sales and Marketing Planning

The Operating Business

To facilitate market entry, FeatherStone has priced its products at the mid-point in the Edmonton market. FeatherStone's loose stone products have a retail price of \$9.00-\$10.00 per square foot. Other products range from \$7.55 - \$13.00 per square foot for Portland cement-based products and approximately \$10.00 per square foot for EasyRock's products.

The installed price for stone products ranges from \$20.00-\$35.00 per square foot. FeatherStone's installed price ranges from \$21.00-\$25.00 per square foot. In addition, FeatherStone has developed the EasyMount™ all-weather installation system. These 2 square foot panels can be installed with mechanical fasteners and allow a much quicker installation of stone products. FeatherStone's EasyMount products retail at \$12.50 per square foot.

FeatherStone has not experienced price resistance from customers. The majority of customers who see the FeatherStone products purchase them. Our goal during the 2007-2008 year is to create market awareness for FeatherStone products. FeatherStone's marketing plan includes the development of an initial product brochure (completed in September 2007), creation of the FeatherStone website (completed in October 2007), optimization of the FeatherStone website for search engines (to be completed in March, 2008), development of the FeatherStone 2008 Product Binder (completed in January 2008), an initial mailout to Edmonton area builders and architects (completed in January 2008) and personal contact with builders and architects (began in December 2007). To date, FeatherStone has received expressions of interest from several builders and Capital Region Housing has named FeatherStone as its preferred supplier of stone products generating an estimated 25,000-30,000 square feet of installed product in 2007-2008.

The Franchising Business

The average franchise fee in Canada is \$23,000.00 and the average franchise investment for a new franchise is \$160,000. In addition to the franchise fee, most franchisors require the payment of a royalty, the purchase of supplies from specified suppliers, regular contribution to a national marketing fund and other assorted fees based on gross revenues, including lease surcharges. Our strategy for FeatherStone franchising is to keep the process simple. The initial franchise fee will be \$25,000.00, a monthly marketing fund contribution of 2.5% will be required and the franchisee will only be required to purchase FeatherStone drymixes, grouts and admixes from FeatherStone. There will be no other royalties payable by the franchisee and the franchisee may purchase all other supplies locally.

Franchises will be marketed initially through word of mouth, referrals and internet promotion. Membership in the International Franchise Association, and possibly the



Canadian Franchise Association, will provide both recognition and legitimacy. To date, expressions of interest have been received from parties in Saskatchewan, Ontario and the United States. Based on sales experience, FeatherStone may use print advertising or franchise consultants in specific markets.

F. Operations

Location

FeatherStone has office, manufacturing and research and development space in Edmonton, Alberta on a 3-year lease which commenced February 1, 2007. The leased premises include approximately 1,000 square feet of office, showroom and reception space, 4,000 square feet of manufacturing space and a 1,000 square foot mezzanine where research and development efforts are housed.

In addition, the leased premises include outdoor storage behind the building and parking in front of the building. The leased premises are located at 9420 – 62 Avenue in Edmonton, Alberta. The area is primarily commercial and light industrial and is immediately adjacent to two arterial roads, 63 Avenue and 91 Street. An added benefit is the locations close proximity to RoofMart, which regularly generates walk-in traffic.

Equipment

In moving the FeatherStone products from prototypes to production, we have experimented with different equipment configurations. The production of the stone for the 4,000 sq.ft. installation at the Empire Ballroom in West Edmonton Mall used very rudimentary equipment. We have researched various equipment options to determine which manufacturers offer the best mix of options in terms of capital cost, throughput and modular growth potential. Based on our research and experience, additional equipment must be acquired to achieve the forecast production. Specifically, a larger mortar mixer, a larger vibrating table, an air compressor, additional racking, a fork lift and a delivery truck will be required. We have budgeted \$75,000.00 for additional equipment for the operating company.

Our experience in the selection and productivity of this equipment will be instrumental in defining the franchise package to be offered by FeatherStone. While franchisee's will not be required to purchase equipment from FeatherStone, it will be important to have a clearly defined equipment package to ensure that the FeatherStone products are properly manufactured.

Suppliers

The majority of the raw materials are available locally from wholesalers. By purchasing smaller quantities initially, FeatherStone has been able to conserve working capital and



avoid carrying large inventories in the initial stages of operations. However, as volume grows FeatherStone will be able to reduce costs by ordering larger quantities directly from manufacturers – some of whom are located in the United States or abroad. The good news is that FeatherStone does not need to order large quantities in order to make the business profitable.

Human Resources

FeatherStone worked with a limited staff complement during 2007. Mr. Simpson, Mr. Mabey and Mr. Jackson shared duties in all aspects of the business operation with casual labour hired as required. In October, 2007, FeatherStone hired a Production Manager to manage production, coordinate installation and maintain the production facility. In addition to the Production Manager, we currently have one full-time and one part-time equivalent positions staffed by casual labour. Mr. Simpson is engaged on a full-time basis managing the business and Mr. Mabey is contracted to provide research and development services. Both assist with production as and when required. Mr. Jackson provides sales support on a part-time basis by making personal contact with builders and prospective customers.

To achieve the forecast production in 2007-2008, FeatherStone will need to hire additional production staff. We forecast that in addition to the current full and part-time staff FeatherStone will need to hire another full-time equivalent in May or June and at least one additional full-time equivalent in July. This estimate is based on the majority of the forecast installation work being subcontracted to third party installers, several of whom we have already identified.

A full-time administrative assistant will be required beginning in mid-April or early May. In addition to providing telephone reception, this individual will provide customer support in our showroom, coordinate production and installation with the Production Manager, oversee office operations and provide data entry support. This will free Mr. Simpson to devote more time to managing franchising operations.

Sales

Mr. Jackson with assistance from Mr. Mabey, Mr. Simpson and the Production Manager will focus on sales during 2007-2008. If additional sales staff are required, they will be contracted on a commission-basis. Provision has been made for sales commissions in the accompanying financial forecast.

With respect to franchising operations, no staff beyond those identified above will be required in 2007-2008. FeatherStone may contract one or more independent franchise sales consultants to assist with franchise sales. These individuals will be compensated on a commission basis from the Sales Costs identified in the accompanying financial forecast. The standard in the industry is a commission equal to 15-20% of the franchise fee, which has been incorporated into the franchise sales costs on the attached financial forecast. Mr. Simpson will take primary responsibility for franchising operations.



Customer Service

Customer service inquiries will be routed through the primary head office telephone number initially with the administrative staff trained to provide the first level response. As the business grows, dedicated Customer Service Representatives will be hired.

G. Financial Statements

FeatherStone is a new corporation and does not have an operating history. The company was incorporated on January 11, 2007 and began commercial operations in July, 2007. The unreviewed financial statements for the period ending August 31, 2007, attached as Appendix B, reflect this initial period of asset acquisition, market research, research and development, and initial production. Appendix C includes pro forma profit and loss statements for the years 2007-2008, 2008-2009 and 2009-2010 based on the knowledge gained in 2007.

H. Financing

Initial Funding

In addition to the capital and resources contributed by ACI, FeatherStone required approximately \$500,000.00 in startup capital. This capital has been secured by private placement of debt and equity.

FeatherStone has issued \$480,000.00 in debt. Eighty thousand dollars of this debt is held by ACI or its shareholders on demand promissory notes with no fixed repayment schedule and a nominal interest rate of 6%. The remaining debt has a 3-year term, repayable in blended monthly payments of principal and interest and bears a nominal annual interest rate of 20%.

FeatherStone has issued 601,000 Class A Voting shares and 100,000 Class B Convertible Shares. The Class B Convertible Shares were issued at \$1.00 per share, raising \$100,000.00 for FeatherStone. The Class B Convertible Shares carry a 12% annual dividend payable quarterly and are convertible to Class A Voting Shares at any time up to the first anniversary of issue at a ratio of 2 Class B Convertible Shares for each 1 Class A Voting Share. From the first anniversary of issue up to the second anniversary of issue the Class B Convertible Shares may be converted at a ratio of 3 Class B Convertible Shares for each 1 Class A Voting Share. From and after the second anniversary of issue, the Class B Convertible Shares may be converted to Class A Voting Shares at the ratio of 5 Class B Convertible Shares for each Class A Voting Share.

FeatherStone may redeem any or all of the outstanding Class B Convertible Shares at any time after the fifth anniversary of issue by paying the shareholders the original subscription price for each share held at the time of redemption plus any accumulated and unpaid



dividends on such shares.

Additional Funds Required

Additional funds are required to accelerate the growth of both the FeatherStone Operating Business and the Franchising Business. FeatherStone is seeking a minimum of \$300,000.00 in equity financing. These funds would be applied as follows, in priority:

Working Capital ¹	\$125,000.00
Equipment Purchases ²	75,000.00
Raw Materials Inventory ³	25,000.00
Product Certification ⁴	50,000.00
Franchising Initiation ⁵	<u>25,000.00</u>
Total	\$300,000.00

1. Working Capital – As the financial forecasts indicate, there is a gap between FeatherStone’s revenues and expenses during the next several months. Additional working capital is required to ensure that commitments to suppliers and staff are met.
2. Equipment Purchases – These funds will be used to acquire a larger mortar mixer and stand, a larger vibrating table, an air compressor, additional racking, a forklift and a delivery truck.
3. Raw Materials Inventory – FeatherStone has developed a proprietary drymix for its product. Currently, the raw ingredients are purchased in smaller quantities and manually mixed. To reduce costs, facilitate handling and mixing, reduce waste and dust, and to permit ease of distribution to franchisees, FeatherStone will purchase the raw materials in bulk and have them custom blended and bagged in 40 kilogram bags with each bag constituting one product mix.
4. Product Certification – Intertek Testing Services NA Ltd. has provided a quotation for testing and certification of the FeatherStone products to the ICC-ES AC51 standard for manufactured stone.
5. Franchising Initiation – Capital will be required to fund initial advertising, travel and membership in the International Franchise Association.

In the event that funding of \$500,000.00 or more is obtained, the outstanding high rate debt would be retired, reducing monthly expenditures by almost \$15,000.00 per month. This would allow FeatherStone to show a small profit in the 2007-2008 year and increased profits in the 2008-2009 and 2009-2010 years.

Based on \$500,000.00 in additional equity funding, the funds would be applied in the following manner:

Debt Retirement ¹	\$300,000.00
Working Capital ²	50,000.00
Equipment Purchases ³	75,000.00



Raw Materials Inventory ³	25,000.00
Product Certification ³	<u>50,000.00</u>
Total	\$500,000.00

1. Debt Retirement – FeatherStone issued promissory notes totaling \$400,000.00 between January 25, 2007 and August 25, 2007. The promissory notes bear interest at a nominal rate of 20% and are repayable on a 3 year term with monthly payments of principal and interest. Retirement of the debt is based on a payout as of February 25, 2008.
2. Working Capital – Working capital requirements would be substantially reduced with the payout of the high rate debt.
3. Equipment Purchases, Raw Materials Inventory and Product Certification – Funding for these items would remain unchanged.
4. Franchising Initiation – These costs would be funded from cash flow.

Any excess funds will be reinvested in FeatherStone to accelerate growth.



Appendix A

FeatherStone Products Gallery

Appalachian Sandstone



Athabasca Ledgestone



Cathedral Stone



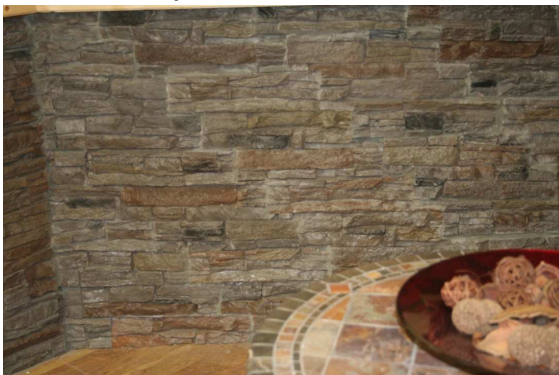
Ram River Rock



Country Cottage Stone



Kootenai Drystack



Lisheen Castle Stone





Appendix B

Financial Information

For the Year Ending August 31, 2007

The following financial statements have not been reviewed by a professional accountant and are for information purposes only.

FeatherStone Rock Products Inc.

Balance Sheet

As of August 31, 2007

ASSETS	
Current Assets	
Cash	\$ 87,560.44
Accounts Receivable	2,335.28
Inventory	<u>108.00</u>
Total Current Assets	\$ 90,003.72
Fixed Assets	
Furniture & Fixtures	\$ 6,155.92
Equipment	<u>24,929.00</u>
Total Fixed Assets	\$ 31,084.92
Other Assets	
FeatherStone Technology License	\$ 60,000.00
TOTAL ASSETS	\$181,088.64
LIABILITIES AND EQUITY	
Liabilities	
Current Liabilities	
Accounts Payable	\$ 9,158.53
GST Payable	<u>-14,098.47</u>
Total Current Liabilities	\$ - 4,939.94
Long-Term Liabilities	
Demand Notes	\$ 30,000.00
3 Year Notes	<u>358,852.52</u>
Long-Term Liabilities	\$388,852.52
Total Liabilities	\$383,912.58
Equity	
Opening Balance Equity	\$ 60,000.00
Net Income	<u>-262,823.94</u>
Total Equity	-\$202,823.94
TOTAL LIABILITIES & EQUITY	\$ 181,088.64



FeatherStone Rock Products Inc.
Profit & Loss Statement
January through August 2007

Income	
Sales	\$ 3,060.29
Total Income	\$ 3,060.29
Cost of Goods Sold	\$ 10,260.14
Gross Profit	\$ - 7,199.85
Expenses	
Advertising & Promotion	\$ 1,329.12
Bank Charges	182.12
Contract Labour	29,478.00
Freight & Delivery	75.01
Property Insurance	1,935.00
Interest	29,463.36
Internet & Network	373.46
Licenses & Fees	162.00
Meals & Entertainment	759.43
Office Supplies	247.66
Professional Fees	132,103.35
Rent	16,011.80
Repairs & Maintenance	11,907.61
Security	179.70
Supplies	20,063.13
Telephones	3,716.14
Tools	995.35
Travel Expenses	3,035.83
Utilities	3,302.33
Vehicle Expenses	<u>301.69</u>
Total Expenses	\$ 255,624.09
Net Income	\$-262,823.94



Appendix C

Financial Forecasts

For the Years Ending August 31, 2008, 2009 & 2010

Financial Forecast Summary

Sales	2007-2008	2008-2009	2009-2010
Sold Square Feet	49246.25	160000	200000
Uninstalled Selling Price	\$393,970.00	\$1,280,000.00	\$1,600,000.00
Margin on Installation	\$124,994.50	\$200,000.00	\$250,000.00
Gross Income from Stone Sales	\$518,964.50	\$1,480,000.00	\$1,850,000.00
Cost of Goods Sold			
Raw materials Cost/Sq.Ft.	\$92,336.72	\$300,000.00	\$375,000.00
Production Manpower/hr.	\$33,817.00	\$75,600.00	\$75,600.00
Burden @15.5%	\$5,241.64	\$11,718.00	\$11,718.00
Sales Commissions	\$25,948.23	\$74,000.00	\$92,500.00
Royalty	\$25,948.23	\$74,000.00	\$92,500.00
Marketing Fund	\$12,974.11	\$37,000.00	\$46,250.00
Total Cost of Goods Sold	\$183,281.80	\$535,318.00	\$647,318.00
Gross Margin	\$335,682.70	\$944,682.00	\$1,202,682.00
Expenses			
Facilities Rent	\$46,748.00	\$46,748.00	\$46,748.00
Utilities	\$12,000.00	\$12,000.00	\$12,000.00
Telephone & Internet	\$4,790.00	\$4,790.00	\$4,790.00
Security System	\$315.38	\$314.37	\$314.37
Management Salary	\$95,000.00	\$145,000.00	\$180,000.00
Production Manager Salary	\$30,000.00	\$30,000.00	\$30,000.00
Administrative Salary	\$19,350.00	\$25,200.00	\$25,200.00
Burden @ 15.5%	\$8,661.00	\$31,031.00	\$36,456.00
Vehicle Expenses	\$0.00	\$7,200.00	\$7,200.00
Property Insurance	\$1,935.00	\$1,935.00	\$1,935.00
Key Man Insurance	\$0.00	\$3,600.00	\$3,600.00
Debt Service	\$178,368.00	\$178,368.00	\$104,048.00
Marketing Expenses	\$9,709.55	\$28,000.00	\$35,000.00
Travel & Convention Expenses	\$1,800.00	\$2,400.00	\$2,400.00
Office Supplies	\$2,700.00	\$1,200.00	\$1,200.00
Tools	\$1,075.00	\$900.00	\$900.00
Licenses & Fees	\$762.00	\$300.00	\$300.00
Business Tax	\$2,400.00	\$3,600.00	\$3,600.00
Meals & Entertainment	\$1,075.00	\$1,200.00	\$1,200.00
Promotion	\$1,325.00	\$1,200.00	\$1,200.00
Bank Charges	\$345.00	\$345.00	\$345.00
Total Expenses	\$409,697.93	\$498,206.37	\$465,886.37
Net Profit Before Taxes	-\$74,115.23	\$446,475.63	\$736,795.63
FeatherStone Franchise Operations			
Sales			
Licenses Sold	3	6	12
Licensing Revenue	\$75,000.00	\$150,000.00	\$300,000.00
Product Sold (Bags)	1500	5500	12000
Product Sold (Cost/Bag)	\$37,500.00	\$137,500.00	\$300,000.00
Total Revenues	\$112,500.00	\$287,500.00	\$600,000.00
Expenses			
Sales Costs	\$18,750.00	\$37,500.00	\$75,000.00
Product Costs	\$30,000.00	\$110,000.00	\$240,000.00
Total Expenses	\$48,750.00	\$147,500.00	\$315,000.00
Net Profit Before Taxes	\$63,750.00	\$140,000.00	\$285,000.00
Consolidated Profit Before Taxes	-\$10,365.23	\$586,475.63	\$1,021,795.63