

SECTION N1 - PROJECT COST & FINANCING SUMMARY

Project Cost Summary

All values are based on best estimate from industry operating statistics, and actual professional appraisals or cost quotes from suppliers.

Buildings	150,001
Renovations / Leasehold Improvements	68,000
Manufacturing / Warehouse Equipment	54,500
Inventory Opening	20,000
Total Project Costs	<u>292,501</u>

Project Financing Summary

Contributed Cash	82,000
Loans / Leases	195,750
Line of Credit	14,751
Total Financing	<u>292,501</u>

Note: A line of credit of 14,751 will be required for the initial startup of the operation. This line of credit will be secured from a financial institution and interest charges will only be incurred on the amount used or outstanding. The actual amount required for an operating line of credit required to cover operations in the first year will be shown in the cash flow projections based on the expected events of the first twelve months of operation.

The following notes detail the specific assets, loans and contributions for the project.

Building Cost:

The total building cost of the project is 150,001. The purchase cost or development cost of additional buildings required including utility installation & hook up for water, sewer, power, energy, engineers, consultants and contractors is 150,001.

Renovations or Leasehold Improvements:

The total cost for renovations and leasehold improvements is 68,000. This cost involves necessary renovations, leasehold improvements or development cost of the building/facility including all necessary costs for services such as water, sewer, power, energy, etc.

Equipment & Furniture Cost:

The total equipment & furniture cost of the project is 54,500. The purchase cost for all additional equipment & furniture required is 54,500. This included all retail / display equipment & furnishing, all manufacturing / warehousing equipment, and all office equipment & furniture.

Inventory Cost:

The initial cost for the purchase of inventory required is 20,000. The total opening inventory value of the project is 20,000.

Total Assets Contributed:

No assets have been contributed to this project.

Total Assets Purchased:

The total cost of assets purchased for the project is 292,501. This included:

Buildings	150,001
Renovations / Leasehold Improvements	68,000
Manufacturing / Warehouse Equipment	54,500
Inventory Opening	20,000

Total Cash Contributed:

Proprietor/Partner/Shareholders Loans	72,000
Sale of Shares / Stock (Corp. Only)	10,000

The total amount of cash contributed to purchase assets and cover the required funds for working capital of the project is 82,000.

Total Contributed Equity:

Proprietor/Partner/Shareholders Loans	72,000
Sale of Shares / Stock	10,000

The total contributed equity involving assets contributed to the project, and cash contributed towards the purchase of assets and the required working capital of the project is 82,000.

Financing Required:

The total amount of financing required to be borrowed to purchase assets and cover working capital required is 195,750. And will be financed through the loans stated below.

Loans/Leases #1: (Year 1 Loan)	144,750
Loans/Leases #2: (Year 1 Loan)	51,000

No line of credit is required for this project.

New Loans

Loan #1 [Building Loan] (Starting in year 1):

The loan amount is **\$144,750** and will be accessed to purchase some or all of the additional assets required for the project.

The term of the loan is **15** years at **5.5%** interest rate.

Loan #2 [Equipment Loan] (Starting in year 1):

The loan amount is **\$51,000** and will be accessed to purchase some or all of the additional assets required for the project.

The term of the loan is **5** years at **7%** interest rate.

Loan / Lease #2 (Year 1 Loan)

The loan amount is 51,000 and will be accessed to purchase some or all of the additional assets required for the project. The term of the loan is 5 years at 7.00% interest rate.

Line of Credit:

No line of credit is required for the first year operation of this project.

Summary of Project Funding:

This would included any loans in year two or three.

Cash Contributed for Project	82,000
Loans / leases	195,750

This section will provide notes about sales, cost of goods and margins to be expected for the operation.

Sales:

The projected annual sales of 476,781 in year one, 500,737 in year two, and 526,008 in year three are based on estimate only. For the year one operating period, sales are incurred by the following categories:

New at an annual total of 780.
Food & Liquor Sales at an annual total of 476,001.

The projected revenue generated from each sale category on an annual and monthly basis is based on industry operating statistics as well as consultations with professionals and suppliers. The total sales percentage break down incurred by the stated categories in the year one operating period are as follows:

New at 0.2% of total annual sales.
Food & Liquor Sales at 99.8% of total annual sales.

The monthly break down of total sales incurred in the year one operating period are as follows: Month 1 at 5.9% of total annual sales, Month 2 at 6.3%, Month 3 at 6.7% , Month 4 at 7.3%, Month 5 at 8.5%, Month 6 at 9.0%, Month 7 at 9.0% , Month 8 at 9.4%, Month 9 at 9.4%, Month 10 at 9.4%, Month 11 at 9.4%, Month 12 at 9.4%.

Charge & Cash Sales:

There will be no charge sales in this business operation. The business will operate strictly on a cash basis.

Cost of Sales & Gross Margin:

The over all cost of goods sold (COGS) and gross margin (GM) percentages for the stated sales categories are as follows:

New with a 43.0% COGS and 57.0% GM
Food & Liquor Sales with a 30.0% COGS and 70.0% GM

All cost of sales and gross margin percentages are based on industry operating statistics and consultations with professionals and suppliers. Please note that the cost of sales percentages represents the costs of the products (inventory) that was sold during the period as a percentage of total sales. The cost of sales include all freight, insurance, direct labor, materials and any other expenses directly related to the purchase of goods to be sold to the consumer.

The gross margin is the difference between total sales and cost of goods sold as a percentage of total sales, and represents the margin of profit the business generates. With all goods and services combined, the overall average cost of sales is 30.0% with an overall average gross margin of 70.0% for the first year of operation.

Gross Margin Dollars:

The annual gross margin dollars after deducting the direct cost of inventory replacement to total gross sales incurred for the year one operating period is 333,646. Year two is projected at 350,415, and year three at 368,109.

The following notes explain the operating expenses for the project.

Sales & Expense Increases:

Sales are projected to increase by 5.0% in year 2, and increase 5.0% in year three. Expenses are projected to increase by 4.1% in year 2 and increase 1.3% in year 3 to adjust for inflation and increases or decreases in the normal operation costs. (Year one includes setup and one time fees for this calculation.)

Depreciation:

Depreciation is the expense which approximates the use of the firm's fixed assets. Yearly depreciation expense is based on an annual rate, which varies according to the asset categories. The depreciation rate in the year of acquisition of all assets is only 50% of the normal allowance.

Accounting:

The total projected expense for accounting for the year one operating period is estimated at 1,700. The total expense involves:

1. Bookkeeping fees of 1,200 in the first year for professional bookkeeping service.
2. Accounting fees of 500 for the preparation of year end financial statements for income tax purposes.

Advertising/Marketing:

To ensure that an increased share of market is captured, advertising and marketing is estimated at 1,200 for the first operating period. Advertising / marketing has been budgeted as 0.3% of sales in the first year, 0.2% in year two and 0.2% in year three. Advertising and marketing have been budgeted including the following items:

Radio & Television	600
Newspaper / Publication	600

The advertising / marketing fees in the operating period of year two are projected to increase by 3.0% and increase in year three by 3.1%.

Bad Debt:

The projected amount of bad debt expense for the year one operating period is 954. Bad debt will be incurred from bad cheques or poor credit customers and has been estimated at 0.20000000000000001% of total gross sales. The bad debt expense in the year two and year three operating periods is projected to increase or decrease commensurate with sales incurred.

Bank Charges:

Bank charges for the year one operating period have been projected at 2,400. This estimate includes bank service fees for the following: fees for cheque writing; fees on all sales conducted by Visa or Master Card; fees for all sales conducted by a point of purchase debit card terminal. The year two and year three operating periods projected estimate will increase or decrease commensurate with sales incurred.

Business License:

The business license fee for the year one operating period is projected at 101. The business license fee from city hall or local rural municipal office is based on the type of business operation, and the square footage of operating space used. The business license fee in the operating period of year two is projected to increase by 3.0% and increase in year three by 2.9%.

Business Name Search & Registration:

The business name search & registration fee will be a one time charge of 360, with an annual renewal of 50. These costs will cover government registration cost for the business. The business name search & registration fee in the operating period of year two is projected to increase by 0.0% and increase in year three by 0.0%.

Other Licenses:

The expected first year costs for other licenses is 250. Other licenses will cover the cost of special licenses required to operate this type of business. The other licenses fees in the operating period of year two are projected to increase 3.2% and increase in year three by 3.1%.

Delivery, Freight & Postage:

Delivery & freight expense for the year one operating period is projected at 3,960. This expense will include charges other than direct delivery charges to bring in inventory. Normal delivery & freight charges from suppliers are included in the cost of sales total. This expense is passed on to the consumer through the retail sales price. The delivery & freight expense in the year two and year three operating periods is projected to increase or decrease with sales incurred.

Depreciation:

The calculated depreciation for year one operating period is projected at 10,900. Year two is projected at 20,438, and year three at 17,944. The depreciation has been calculated using the capital cost allowance method. The depreciation rate in the year of acquisition is only 50%, which is the norm for most locations.

Insurance:

Insurance expense for the year one operating period is projected at 2,400. This expense is for comprehensive business liability insurance, with full replacement for fire and theft, public liability, product liability, business interruption and any other protection required. The insurance expense in the year two is projected to increase by 3.0% and increase in year three by 3.0%.

Legal Fees:

There will be a one time legal fees in year one for the business setup of 2000. The legal fees are setup to cover costs associated with preparation of contracts, purchase of land or buildings, the registration and incorporation of the business, and other misc. items. The legal fees in the operating period of year two are projected to increase by 0.0% and increase in year three by 0.0%.

Interest Payments:

Loan #1 [Building Loan] (Starting in Year 1)

The interest payment on loan #1 for the year one operating period is projected at 7,802.

The year two payment is projected at 7,441.

The year three payment is projected at 7,060.

Loan #2 [Equipment Loan] (Starting in Year 1)

The interest payment on loan #2 for the year one operating period is projected at 3,290.

The year two payment is projected at 2,652.

The year three payment is projected at 1,968.

Loan / Lease #2 (Year 1 Loan) Interest Payments:

The interest payment on the loan #2 for the year one operating period is projected at 3,290. The year two payment is projected at 2,652, and the year three payment at 1,968.

Principal Payments:

Loan #1 [Building Loan] (Starting in Year 1)

The principal payment on loan #1 for the year one operating period is projected at 6,391.

The year two payment is projected at 6,751.

The year three payment is projected at 7,132.

Loan #2 [Equipment Loan] (Starting in Year 1)

The principal payment on loan #2 for the year one operating period is projected at 8,828.

The year two payment is projected at 9,466.

The year three payment is projected at 10,150.

Loan / Lease #2 (Year 1 Loan) Principal Payments:

The loan principal payment for loan #2 in the year one operating period is projected at 8,828. The year two payment is projected at 9,466 and the year three payment at 10,150.

Line of Credit Interest Payments:

The amount of line of credit interest incurred for the year one operating period is projected at 7. Year two operating period is projected at 0, and year three at 0. The line of credit interest rate was set at 9%.

Miscellaneous Expense:

As a contingency, the amount of 840 in the first year has been budgeted for unforeseen operating costs (unusual expenses). The miscellaneous expense in the operating period of year two is projected to increase by 3.0% and increase in year three by 3.0%.

Office / Store Supplies:

Office & store supplies expense for the year one operating period has been projected at 3,000. This amount will cover all office supplies such as pens, paper, stationary, letterhead, cash register supplies, receipts, invoices, journal books, postage, business cards, etc. The office & store supplies expense in the operating period of year two is projected to increase by 3.0% and increase in year three by 3.0%.

Property Tax:

Property tax expense for the year one operating period has been projected at 6,200. The property tax expense in the operating period of year two is projected to increase by 4.8% and increase in year three by 3.0%.

Repairs & Maintenance:

Repairs & maintenance expense for the year one operating period is projected at 1,200. This expense is incurred from vehicle, equipment, and facilities repairs. The repairs & maintenance expense in the operating period of year two is projected to increase by 3.0% and increase in year three by 3.0%.

Telephone & Communications:

Telephone & communications expense for the year one operating period is projected at 1,200. There will also be one time setup fees and deposits of 120 in the first year. This expense will be incurred to accommodate hook up services for telephone, cellular phone, fax line, and computer line; as well as anticipated long distance charges related general business and re-supply orders, facsimile, computer line charges, and internet connections. The telephone expense in the operating period of year two is projected to increase by 3.0% and increase in year three by 3.0%.

Utilities:

Utilities expense for the year one operating period is projected at 36,000. One time setup fees and deposits of 300 will also be incurred in the first year. This expense will be incurred to accommodate all hook up service fees and deposit charges, as well as regular monthly usage fees for water, sewer, power, energy, and garbage pick up. The utilities expense in the operating period of year two is projected to increase by 3.0% and increase in year three by 3.0%.

Vehicle Expense:

Vehicle expense for the year one operating period is projected at 1,200. This expense includes licenses & registration, the cost of fuel, oil, and general maintenance for vehicles operated by the business. The vehicle expense in the operating period of year two is projected to increase by 3.0% and increase in year three by 3.0%.

Wages / Salaries Management:

Management wages expense in the year one operating period is projected at 24,000. This amount is to ensure that management is fully remunerated for their qualifications and the level of responsibility associated with this business operation. Modest performance increase has been built in at 3.0% in year two and 3.0% in year three.

Wages / Salaries Employees:

Employees wages expense in the year one operating period is projected at 120,000. This amount includes employees that will work full time at 40 hours per week; employees that will work part time and casual for various amounts of hours per week; and also commission and contract positions. The employees wages expense is projected to increase by 3.0% in year two and increase by 3.0% in year three.

Wage Benefits:

Wage benefits expense in the year one operating period is projected at 11,040. This expense will involve pensions and other benefits, holiday pay, vacation pay, and other items that the business will be required to remit or pay, and has been estimated at 8% of total wages paid. The wage benefit expense is projected to increase by 3.0% in year two and increase by 3.0% in year three.

Total Expenses:

The total operating expenses for the year one operating period is projected at 244,867. Year two operating period is projected to increase to 254,888, and to increase in year three to 258,080.

This section is an overview of the income, cash position and the break even point for the business.

Operating Income Before Income Tax & Line of Credit Interest:

The total operating income for the year one operating period is projected at 88,779. Year two operating period is projected to be 95,527 with year three projected at 110,029.

Net Income Before Tax:

The net income for the year one operating period is projected at 88,772. Year two operating period is projected at 95,527, and year three at 110,029. Please note that the net income is calculated after depreciation deductions, and before loan principal payments and income tax deductions.

Cash Surplus/Deficit:

The cash surplus for the year one operating period is projected at 67,897. Year two surplus is projected at 147,330, and year three surplus at 230,208. The cash surplus or deficit total is calculated by adding back depreciation and then subtracting debt principal payments towards the long term debt. As well as taking into consideration any sales conducted on credit terms.

Breakeven Sales Volume:

The breakeven sales volume for the year one operating period is projected at 349,820 with an average monthly sales volume required of 29,152. Year two operating period breakeven sales volume is projected at 364,126 with an average monthly breakeven sales volume of 30,344; and year three breakeven sales volume is projected at 368,686 with an average monthly breakeven sales volume of 30,724.

Breakeven sales are calculated by dividing total annual expenses, including loan principal payments by the average projected gross margin obtained from gross sales incurred. Breakeven sales volume increased in year two because all expenses have increased by 4.1% and have increased in year three because all expenses have increased by 1.3% to adjust for inflation, fluctuations in the operations and sales, and other variables.