

McBRIDE COMMUNITY FOREST CORPORATION

FINANCIAL STATEMENTS

December 31, 2005

RHN SCHMITZ de GRACE
Chartered Accountants

RHN SCHMITZ de GRACE

Chartered Accountants

Partners

- Lynn Ross CA
- Norm Hildebrandt BBA, CA
- Kerry Nichiporik CA

Associate

Joe Gunderson, BComm, CGA

- Denotes professional corporation

1116 Sixth Avenue
Prince George, BC, V2L 3M6
Tel. (250) 564-2515
Fax (250) 562-8722
E-mail: office@rhngroup.ca

AUDITORS' REPORT

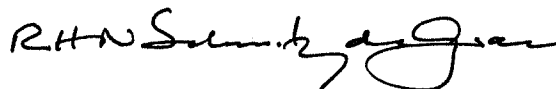
To the Shareholder of
McBride Community Forest Corporation

We have audited the balance sheet of McBride Community Forest Corporation as at December 31, 2005 and the statements of operations and retained earnings and of cash flow for the year then ended. These financial statements are the responsibility of the company's management. Our responsibility is to express an opinion on these financial statements based on our audit.

We conducted our audit in accordance with Canadian generally accepted auditing standards. Those standards require that we plan and perform an audit to obtain reasonable assurance whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation.

In our opinion, these financial statements present fairly, in all material respects, the financial position of the company as at December 31, 2005 and the results of its operations and cash flow for the year then ended in accordance with Canadian generally accepted accounting principles.

Prince George, BC
March 27, 2006


Chartered Accountants

McBRIDE COMMUNITY FOREST CORPORATION
STATEMENT OF OPERATIONS AND RETAINED EARNINGS

For the year ended December 31, 2005

	2005	2004
REVENUE		
Log sales	\$ 1,126,823	\$ 1,632,075
Salvage licences	248,096	169,353
Administration and consulting	25,998	32,529
Interest	10,257	1,353
Government grants	-	16,011
	1,411,174	1,851,321
EXPENSES		
Stumpage	653,207	377,055
Salaries and employee benefits	150,111	153,719
Logging contractors	131,926	616,710
Trucking and hauling	94,575	-
Silviculture	73,001	96,845
Road construction	66,228	56,398
Insurance, licences and dues	16,017	29,616
Consulting fees	13,431	39,581
Bad debts	13,359	956
Rent	12,000	12,000
Vehicle	7,147	4,991
Repairs and maintenance	6,391	10,315
Professional fees	5,611	4,901
Office and general	2,189	1,655
Equipment rental	2,159	-
Travel and entertainment	1,714	3,186
Advertising and promotion	577	4,385
Interest and bank charges	564	719
Amortization (Note 1)	8,357	11,626
	1,258,564	1,424,658
NET INCOME FOR THE YEAR	152,610	426,663
RETAINED EARNINGS (DEFICIT) AT BEGINNING OF THE YEAR	363,276	(13,457)
DIVIDENDS PAID	(155,000)	(49,930)
RETAINED EARNINGS AT END OF THE YEAR	\$ 360,886	\$ 363,276

See notes to the financial statements.

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McBRIDE COMMUNITY FOREST CORPORATION

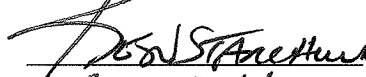
BALANCE SHEET


December 31, 2005

ASSETS

	<u>2005</u>	<u>2004</u>
CURRENT ASSETS		
Cash	\$ 20	\$ 98,113
Term deposits	443,469	483,212
Accounts receivable	168,777	14,343
Prepaid expenses	<u>13,068</u>	<u>1,555</u>
	625,334	597,223
DEFERRED LOGGING COSTS (Note 1(b))	67,318	60,108
CAPITAL ASSETS (Notes 1, 2 and 3)	<u>20,151</u>	<u>28,508</u>

Approved by the Directors:

 Director

 Director

\$ 712,803

\$ 685,839

LIABILITIES		
	<u>2005</u>	<u>2004</u>
CURRENT LIABILITIES		
Cheques issued in excess of funds on deposit	\$ 8,363	\$ -
Accounts payable	97,024	139,013
Silviculture liability	169,811	96,845
Current portion of long-term debt (Note 3)	<u>9,984</u>	<u>9,984</u>
	285,182	245,842
LONG-TERM DEBT (Note 3)	<u>16,642</u>	<u>26,628</u>
	<u>301,824</u>	<u>272,470</u>
SHAREHOLDER'S EQUITY		
SHARE CAPITAL (Note 4)	20	20
CONTRIBUTED SURPLUS (Note 5)	<u>50,073</u>	<u>50,073</u>
	50,093	50,093
RETAINED EARNINGS	<u>360,886</u>	<u>363,276</u>
	<u>410,979</u>	<u>413,369</u>
	<u>\$ 712,803</u>	<u>\$ 685,839</u>

See notes to the financial statements.

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McBRIDE COMMUNITY FOREST CORPORATION

STATEMENT OF CASH FLOW

For the year ended December 31, 2005

	2005	2004
OPERATING ACTIVITIES		
Net income for the year	\$ 152,610	\$ 426,663
Items not involving cash:		
Amortization	8,357	11,626
	160,967	438,289
Changes in non-cash working capital items		
Accounts receivable	(154,434)	2,927
Prepaid expenses	(11,513)	434
Accounts payable	(41,989)	125,952
Silviculture liability	72,966	96,845
	(134,970)	226,158
Cash from operations	25,997	664,447
FINANCING ACTIVITIES		
Repayment of long-term debt	(9,986)	(9,984)
Dividends paid	(155,000)	(49,930)
	(164,986)	(59,914)
INVESTING ACTIVITIES		
Deferred logging costs	(7,210)	(60,109)
Purchase of capital assets	-	(1,945)
	(7,210)	(62,054)
(DECREASE) INCREASE IN CASH AND EQUIVALENTS	(146,199)	542,479
CASH AND EQUIVALENTS AT BEGINNING OF THE YEAR	581,325	38,846
CASH AND CASH EQUIVALENTS AT END OF THE YEAR	\$ 435,126	\$ 581,325
During the year, the following payments were made for:		
Interest	\$ 564	
Income taxes	-	

See notes to the financial statement.

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McBRIDE COMMUNITY FOREST CORPORATION

NOTES TO THE FINANCIAL STATEMENTS

For the year ended December 31, 2005

1. SIGNIFICANT ACCOUNTING POLICIES

a) Amortization

Amortization of capital assets has been provided for on a declining balance basis at the following annual rates:

Automotive	30%
Equipment	20%

b) Deferred Logging Costs

The costs of roads constructed to access standing timber are deferred until the related timber is harvested. Such costs are amortized over the total anticipated volume to be removed from each block, and are expensed based on production.

c) Income Taxes

The company is a 100% owned subsidiary of the Corporation of the Village of McBride, and is consequently not subject to corporate income taxes.

d) Revenue Recognition

Sales of logs, including those marketed through salvage licences, are recognized on delivery and scaling.

All other revenue is recognized when service is provided.

2. CAPITAL ASSETS

Capital assets are recorded at cost and are comprised of the following:

	2005		2004	
	Cost	Accumulated Amortization	Net Book Value	Net Book Value
Automotive	\$ 44,633	\$ 26,043	\$ 18,590	\$ 26,557
Equipment	2,224	663	1,561	1,951
	\$ 46,857	\$ 26,706	\$ 20,151	\$ 28,508

McBRIDE COMMUNITY FOREST CORPORATION

NOTES TO THE FINANCIAL STATEMENTS

For the year ended December 31, 2005

3. LONG-TERM DEBT

The details of long-term debt are as follows:

	<u>2005</u>	<u>2004</u>
Ford Credit, interest-free term loan repayable in monthly instalments of \$832 (secured by specific equipment).	\$ 26,626	\$ 36,612
Less: Due within one year	<u>9,984</u>	<u>9,984</u>
	<u>\$ 16,642</u>	<u>\$ 26,628</u>

The portion of long-term debt payable in each of the next three years is:

2006	\$ 9,984
2007	9,984
2008	6,658

4. SHARE CAPITAL

Share capital is comprised of the following:

Authorized:

10,000	Class A common shares with a par value of \$1.00 each
10,000	Class B common shares with a par value of \$1.00 each
10,000	Class C common shares with a par value of \$1.00 each
100,000	Class D common shares with a par value of \$0.01 each
100,000	Class A preference shares with a par value of \$0.01 each
100,000	Class B preference shares with a par value of \$0.01 each
100,000	Class C preference shares with a par value of \$100.00 each
100,000	Class D preference shares with a par value of \$0.01 each
100,000	Class E preference shares with a par value of \$0.01 each
100,000	Class F preference shares with a par value of \$0.01 each

		<u>2005</u>	<u>2004</u>
Issued:	10 Class A common shares	\$ 10	\$ 10
	10 Class B common shares	<u>10</u>	<u>10</u>
		<u>\$ 20</u>	<u>\$ 20</u>

McBRIDE COMMUNITY FOREST CORPORATION

NOTES TO THE FINANCIAL STATEMENTS

For the year ended December 31, 2005

5. CONTRIBUTED SURPLUS

The contributed surplus is comprised of contributions made to the company by its only shareholder, the Corporation of the Village of McBride.

6. FINANCIAL INSTRUMENTS

The company's financial instruments are comprised of cash, term deposits, accounts receivable, accounts payable and accrued liabilities, and long-term debt.

a) Credit Risk

The company provides credit to its clients in the normal course of business and has carried out specific procedures to minimize the risk. Credit risk is minimal.

b) Interest Rate Risk

None of the financial instruments bear interest, therefore, the interest rate risk is nil.

c) Fair Value

The carrying value for primary instruments approximates fair value, due to their short term maturities. The carrying value of non current instruments approximates fair value because it is based upon interest rates currently available to companies in similar circumstances.

7. USE OF ESTIMATES

The preparation of financial statements in accordance with Canadian generally accepted accounting principles requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities at the date of the financial statements, and the reported amounts of sales and expenses during the year. Actual results could differ from management's best estimates as additional information becomes available in the future.