

McBRIDE COMMUNITY FOREST CORPORATION

FINANCIAL STATEMENTS

December 31, 2006

RHN SCHMITZ de GRACE
Chartered Accountants

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Chartered Accountants

Partners

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

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

- Denotes professional corporation

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, 2006 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, 2006 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
April 4, 2007

RHN Schmitz de Grace
Chartered Accountants

McBRIDE COMMUNITY FOREST CORPORATION
STATEMENT OF OPERATIONS AND RETAINED EARNINGS

For the year ended December 31, 2006

	2006	2005
REVENUE		
Sale		
Raw logs	\$ 3,615,862	\$ 1,035,557
Standing timber	962,589	91,266
Sort yard	53,485	-
Salvage licences	236,521	248,096
Administration and consulting	34,489	25,998
Interest	28,708	10,257
	4,931,654	1,411,174
EXPENSES		
Logging contractors	1,319,165	131,926
Trucking and hauling	744,920	94,575
Silviculture	425,676	73,001
Stumpage	346,297	653,207
Road construction	217,673	66,228
Salaries and employee benefits	155,346	150,111
Consulting fees	98,707	13,431
Rent	34,276	12,000
Repairs and maintenance	31,595	6,391
Road maintenance	26,222	-
Office and general	21,742	2,189
Bad debts	10,793	13,359
Vehicle	8,395	7,147
Insurance, licences and dues	6,344	16,017
Equipment rental	5,334	2,159
Professional fees	4,613	5,611
Travel and entertainment	3,257	1,714
Advertising and promotion	2,099	577
Interest and bank charges	1,540	564
Amortization (Note 1 (a))	5,585	8,357
	3,469,579	1,258,564
INCOME BEFORE OTHER ITEM	1,462,075	152,610
OTHER ITEM		
Gain on sale of assets	410	-
NET INCOME FOR THE YEAR	1,462,485	152,610
RETAINED EARNINGS AT BEGINNING OF THE YEAR	360,886	363,276
DIVIDENDS PAID	(150,000)	(155,000)
RETAINED EARNINGS AT END OF THE YEAR	\$ 1,673,371	\$ 360,886

See notes to the financial statements.

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McBRIDE COMMUNITY FOREST CORPORATION

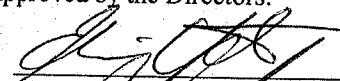
BALANCE SHEET

December 31, 2006

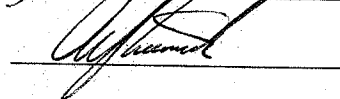
ASSETS

	<u>2006</u>	<u>2005</u>
CURRENT ASSETS		
Cash	\$ 246,156	\$ 20
Term deposits	1,452,177	443,469
Accounts receivable	739,956	168,777
Prepaid expenses	<u>12,558</u>	<u>13,068</u>
	2,450,847	625,334
DEFERRED LOGGING COSTS (Note 1(b))	110,168	67,318
CAPITAL ASSETS (Notes 1(a) and 2)	<u>33,443</u>	<u>20,151</u>

Approved by the Directors:



Director



Director

\$ 2,594,458

\$ 712,803

LIABILITIES

	<u>2006</u>	<u>2005</u>
CURRENT LIABILITIES		
Cheques issued in excess of funds on deposit	\$ -	\$ 8,363
Accounts payable	388,950	97,024
Silviculture liability	482,044	169,811
Current portion of long-term debt (Note 3)	-	9,984
	<u>870,994</u>	<u>285,182</u>
LONG-TERM DEBT (Note 3)	-	16,642
	<u>870,994</u>	<u>301,824</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>1,673,371</u>	<u>360,886</u>
	<u>1,723,464</u>	<u>410,979</u>
	<u>\$ 2,594,458</u>	<u>\$ 712,803</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, 2006

	<u>2006</u>	<u>2005</u>
OPERATING ACTIVITIES		
Net income for the year	\$ 1,462,485	\$ 152,610
Items not involving cash:		
Amortization	5,585	8,357
Gain on disposal of assets	(410)	-
	<u>1,467,660</u>	<u>160,967</u>
Changes in non-cash working capital items (Note 6)	<u>33,490</u>	<u>(134,970)</u>
Cash from operations	<u>1,501,150</u>	<u>25,997</u>
FINANCING ACTIVITIES		
Repayment of long-term debt	(26,626)	(9,986)
Dividends paid	(150,000)	(155,000)
	<u>(176,626)</u>	<u>(164,986)</u>
INVESTING ACTIVITIES		
Deferred logging costs	(42,850)	(7,210)
Purchase of capital assets	(37,467)	-
Proceeds from disposal of capital assets	19,000	-
	<u>(61,317)</u>	<u>(7,210)</u>
INCREASE (DECREASE) IN CASH AND EQUIVALENTS	1,263,207	(146,199)
CASH AND EQUIVALENTS AT BEGINNING OF THE YEAR	435,126	581,325
CASH AND CASH EQUIVALENTS AT END OF THE YEAR	<u>1,698,333</u>	<u>435,126</u>
Cash and equivalences are comprised of:		
Cash	\$ 246,156	\$ 20
Term deposits	1,452,177	443,469
Cheques issued in excess of funds on deposit	-	(8,363)
	<u>\$ 1,698,333</u>	<u>\$ 435,126</u>
During the year, the following payments were made for:		
Interest	\$ 1,540	
Income taxes	-	

See notes to the financial statements.

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McBRIDE COMMUNITY FOREST CORPORATION

NOTES TO THE FINANCIAL STATEMENTS

For the year ended December 31, 2006

1. SIGNIFICANT ACCOUNTING POLICIES

a) Capital Assets and Amortization

Capital assets are recorded at cost. 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

	2006		2005	
	Cost	Accumulated Amortization	Net Book Value	Net Book Value
Automotive	\$ 23,540	\$ 3,531	\$ 20,009	\$ 18,590
Equipment	13,251	2,078	11,173	1,561
Office equipment	2,900	639	2,261	-
	\$ 39,691	\$ 6,248	\$ 33,443	\$ 20,151

McBRIDE COMMUNITY FOREST CORPORATION

NOTES TO THE FINANCIAL STATEMENTS

For the year ended December 31, 2006

3. LONG-TERM DEBT

The details of long-term debt are as follows:

	<u>2006</u>	<u>2005</u>
Ford Credit, interest-free term loan	\$ -	\$ 26,626
Less: Due within one year	<u>-</u>	<u>9,984</u>
	<u>\$ -</u>	<u>\$ 16,642</u>

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

Issued:

	<u>2006</u>	<u>2005</u>
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, 2006

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. CHANGES IN NON-CASH WORKING CAPITAL ITEMS

Accounts receivable	\$ (571,179)	\$ (154,434)
Prepaid expenses	510	(11,513)
Accounts payable	291,926	(41,989)
Silviculture liability	312,233	72,966
	<u>\$ 33,490</u>	<u>\$ (134,970)</u>

7. FINANCIAL INSTRUMENTS

The company's financial instruments are comprised of cash, term deposits, accounts receivable, accounts payable and silviculture liability, 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.

8. 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.